Ports Canada

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Message from the Chairman of the Board	1
Message from the President and Chief Executive Officer	2
Ports Canada Five Year Financial Review	3
Ports Canada Review of Traffic	4
Canada Ports Corporation	5
Halifax Port Corporation	17
Montréal Port Corporation	23
Prince Rupert Port Corporation	31
Port of Québec Corporation	39
Saint John Port Corporation	45
St. John's Port Corporation	53
Vancouver Port Corporation	59
Corporate Directory	65

"Ports Canada" describes a federal system of ports administered pursuant to the *Canada Ports Corporation Act* which was proclaimed in 1983. Seven of these ports are autonomous local port corporations located in Halifax, Montréal, Prince Rupert, Québec, Saint John, St. John's and Vancouver. The other ports are administered on a divisional basis by the Canada Ports Corporation and are located in Belledune, Chicoutimi/Baie des Ha! Ha!, Churchill, Port Colborne, Prescott, Sept-Îles and Trois-Rivières.

Ports Canada handles nearly half of the overall Canadian port traffic and more than 95 percent of container traffic. It is, therefore, an effective means for the implementation of the national ports policy. The policy provides for, at the best cost possible and in a manner equitable to all users, the services necessary for Canada's international shipping trade at national, regional and local levels.

The system operates on a decentralized basis; each of the local port corporations functions with a high degree of autonomy in the administration of their own port. In providing a public service, the ports are administered according to common commercial principles.

The Canada Ports Corporation's National Office is located in Ottawa.

Pour recevoir ce rapport en français, prière de vous adresser à Ports Canada, 99, rue Metcalfe, Ottawa (Ontario) K1A 0N6

Message from the Chairman of the Board

Although a degree of stability returned to the waterside modes of transportation through 1987, the trauma of the eighties has forced "sharp-pencil management" on to those engaged in the exciting business of moving resource products and value-added goods.

In the Ports Canada system, we have moved from a preoccupation with maritime issues to the role of a connector between modes of transport. The challenge is to ensure that infrastructure, hardware, management and labour, are all in harmony with the interests and expectations of present and prospective users.

In actioning this challenge, member ports are re-evaluating and updating land use, purchasing modern equipment to increase productivity and capacities, extending and enlarging berths and terminals, and building modern intermodal transfer facilities to ensure that our connector role is efficient and effective in the movement of bulk products, forest products and goods in containers.

It is in the national interest for governments and transportation entities engaged in international commerce through our ports, to accelerate the rate of modernization of equipment and infrastructure, to serve the demands of today's landbridge and physical distribution concepts.

There is an urgent need for two level-crossing connections between port and regional highway systems in order to reduce trucking costs. The resolution of this problem, where it exists, will require the goodwill of all three levels of government.

With our ports being rail dependant, we have a priority interest in the modernization of rail equipment. It is important that our ports have in place the best possible infrastructure for container transfer in order to accommodate the next generation of rail container equipment. There is a need for early consultation between rail and port entities in order to strengthen this link in our national transportation system.

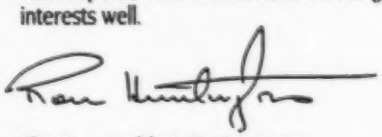
The role of the port in disputes between longshore unions and employers has become a central issue. With a breakdown in labour relations, activity on the terminal stops and the port, as a gateway for trade, is held hostage until the dispute is resolved and work resumes. In 1988, a more proactive role for ports should evolve in the relationships between longshore unions and employers. In some ports monitoring of communications between parties may improve the relationship and help avert a crisis.

A statement of purpose for the Canada Ports Corporation has received consensus within the Ports Canada system. This statement elaborates and clarifies the role of National Office in serving the National Interest.

The government has appointed a good balance of high calibre members to the various Boards of Directors. I am pleased to report that under their direction the accountability framework envisioned by Crown corporation legislation is functioning well.

The Canada Ports Corporation Board of Directors is a devoted group, who are supported by sincere and dedicated staff. The Board of Directors appreciates the energetic team approach of Jean Michel Tessier, President and Chief Executive Officer and a valued member of the Board. Good progress has been made through 1987 in the working relationships within the Ports Canada structure.

The leadership and attention given to evolving issues by the Honourable John Crosbie, Minister of Transport, and his staff is valued and appreciated. As we enter the sixth year under the *Canada Ports Corporation Act*, the Ports Canada system has developed "sea legs" which, I am hopeful, will serve Canada's trading interests well.



The Honourable A.R. Huntington
Chairman of the Board

Message from the President and Chief Executive Officer

Last year marked the fifth year that Ports Canada has been governed under the Canada Ports Corporation legislation — a year characterized with new and increased challenges from which the Corporation emerged stronger and more determined to pursue its objectives.

Key among these objectives is the strengthening of the Ports Canada system. A major initiative was undertaken to establish an interport loan mechanism to further enhance the financial self-sufficiency of the system in accordance with the *Canada Ports Corporation Act*. With unanimous support of all local port corporations, as well as the Canada Ports Corporation, this policy now awaits the shareholder approval before it is implemented.

In a similar vein, the Ports Canada family adopted a new insurance policy that now covers all ports within the system with significant cost savings to all concerned. We are now examining viable alternatives for establishing a self-insurance fund to further reduce insurance costs to the port.

Ports Canada's competitive study reached near completion marking a major accomplishment. This comprehensive study delved into nearly all aspects of port operations in North America with a view to providing us with a keener understanding of potential opportunities for and risks to our ports. The challenge will now be to formulate strategies that will enable us to capitalize on our strengths to overcome any weaknesses in this intensely-competitive market.

Similarly, in recognition of changing market forces, we have initiated a long-term viability study of our non-corporate ports, which, pursuant to the legislation, are managed on a divisional basis. Our intent is to ensure that every effort is made to identify viable business ventures for these ports. At the same time, however, cost factors will be closely examined with an eye on economies wherever possible.

In accordance with our general disposition toward the management of our ports, proposals were sought from the private sector to operate the elevator at the Port of Prescott. Having established specific profitability targets, one of the proponents has been selected for final negotiations. A decision is expected in the first quarter of 1988.

The evolving role of the National Office of the Canada Ports Corporation resulted in a reassessment of the organization and structure of this Office. Required adjustments were incorporated to ensure responsiveness to the port needs and changing market conditions. Most importantly, staff departments were realigned to stress the need for a marketing and service orientation. Our efforts will now be directed to the creation of working conditions that will encourage flexibility and creativity and reward performance.

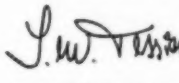
These steps and consequent successes notwithstanding, significant challenges lie ahead for Ports Canada in the coming years arising both from internal and external environments. The new *National Transportation Act* and the Canada-US Free Trade Agreement will undoubtedly create new dynamics within Canada's transportation industry. Ports Canada will not only do its utmost to contribute to the successful implementation of these historic measures, we will also endeavor, at the same time, to learn to adapt to these new realities and the resulting vitality.

As a responsible Corporation, we remain supportive of the government's fiscal objectives. The establishment of the interport loan, for example, is intended to reduce the need for state funding of viable port projects that would otherwise require borrowing from the government.

Most importantly, however, Ports Canada must pursue a vision of excellence in every respect. As the new President and Chief Executive Officer, working with a dedicated staff, the achievement of this mandate will constitute one of my major priorities. Having been blessed with a visionary and supportive Board of Directors, under the leadership of the Honourable A. R. Huntington, I intend to do my utmost in pursuit of these ideals.

Opportunities are limitless. Ports Canada will remain keenly interested in those that enable us to take advantage of our unique role to support Canada's economic and trade objectives.

At this time, I would like to acknowledge the support of the Board of Directors and the Honourable John Crosbie, Minister of Transport who entrusted in me this challenging and exciting position; and to the staff of National Office and the ports the tip of my hat for their words of encouragement, loyalty and hard work.



Jean Michel Tessier
President and Chief Executive Officer

Ports Canada Five Year Financial Review

Revenue from operations for Ports Canada increased $11 million or 7 percent to $171 million in 1987. Contributing to this increase was a marked improvement in traffic at Québec where a breakdown in labour negotiations resulted in a work stoppage in 1986. The increase also reflects significantly higher grain volumes at Halifax, Prince Rupert, Québec and Vancouver as well as a greater volume of container traffic at Halifax, Montréal and Vancouver.

Operating expenses were $140 million compared with $138 million in 1986. This successful containment of expenses in 1987 resulted in an improved operating income of $31 million, an increase of $9 million or 41 percent from the previous year. Funds from operations, being operating income before depreciation, amounted to $57 million in 1987, as compared to $46 million in 1986.

Net income, before the $4 million share in the loss of Ridley Terminals Inc., was $47 million compared to $42 million in 1986. In spite of an improvement of $9 million in operating income, net income increased by $5 million mainly due to a decline in investment income. This decline was the result of a smaller investment base following a $133 million cash payment made to Canada in 1986 and a $12 million cash dividend made in 1987.

Besides the annual recognition of net income and dividend, in 1987 equity of Canada reflects the forgiveness by Canada of $475 million of debts and accrued interest, the repayment of which was suspended by Canada in 1981. This debt forgiveness has been credited to contributed capital and has permitted some Ports Canada corporations to conduct a restructuring of the equity section of their balance sheets. The restructuring exercise has been carried out, as approved by the Minister of Transport, with the objective of better reflecting the financial strength of the corporations involved.

During the year Ports Canada invested $34 million in capital projects. Of this amount, $31 million was provided by internally generated funds. Major capital projects undertaken in 1987 included the upgrading and expansion of port facilities at Halifax, Montréal, Sept-Îles, St. John's and Vancouver.

Ports Canada Five Year Financial Review

	1987	1986 (restated)	1985 (restated)	1984	1983
(in millions except for average number of employees and ratios)					
Financial results					
Revenue from operations	$ 170.7	$159.9	$153.7	$157.1	$151.1
Operating expenses	140.2	138.1	130.3	129.6	126.9
Operating income	30.5	21.8	23.4	27.5	24.2
Investment income — net	16.0	18.9	26.8	24.2	22.6
Net income before RTI*	46.5	42.1	51.9	57.8	35.0
Cash provided by operating activities	69.3	58.1	76.4	74.6	73.7
Financial position at year end					
Working capital	$ 148.6	$114.2	$211.7	$189.8	$160.1
Fixed assets — at cost	1,015.4	990.1	962.3	914.0	892.9
Total assets	895.5	863.5	974.2	926.1	865.8
Equity of Canada	737.4	227.8	322.3	275.3	218.8
Capital expenditures	$ 33.8	$ 50.2	$ 64.1	96.6	$ 74.6
Federal capital financing					
Grants	$ 2.1	$ 13.5	$ 14.3	$ 35.4	$ 10.5
Loans	1.0	4.1	5.2	4.9	7.1
Recoverable contribution	—	—	—	0.4	8.4
Employees					
Average number of employees	1,344	1,452	1,517	1,637	1,695
Ratios					
Operating revenue/tonne	$ 0.98	$ 0.99	$ 0.99	$ 0.95	$ 1.05
Tonne/employee	129,455	110,840	102,307	100,672	84,897
Cash from operating activities/total assets	7.7%	6.7%	7.8%	8.1%	8.5%

* Ridley Terminals Inc.

Ports Canada Review of Traffic

Total 1987 cargo volume through Ports Canada ports, including both private facilities located within the harbour limits and Ports Canada berths, was up almost 8 percent over 1986 to 174 million tonnes. The major portion of this growth was accounted for by an increase in bulk grain traffic, primarily through the ports of Québec, Prince Rupert and Vancouver. Other areas of growth in tonnage across the port system included liquid bulk (petroleum) and containerized cargo.

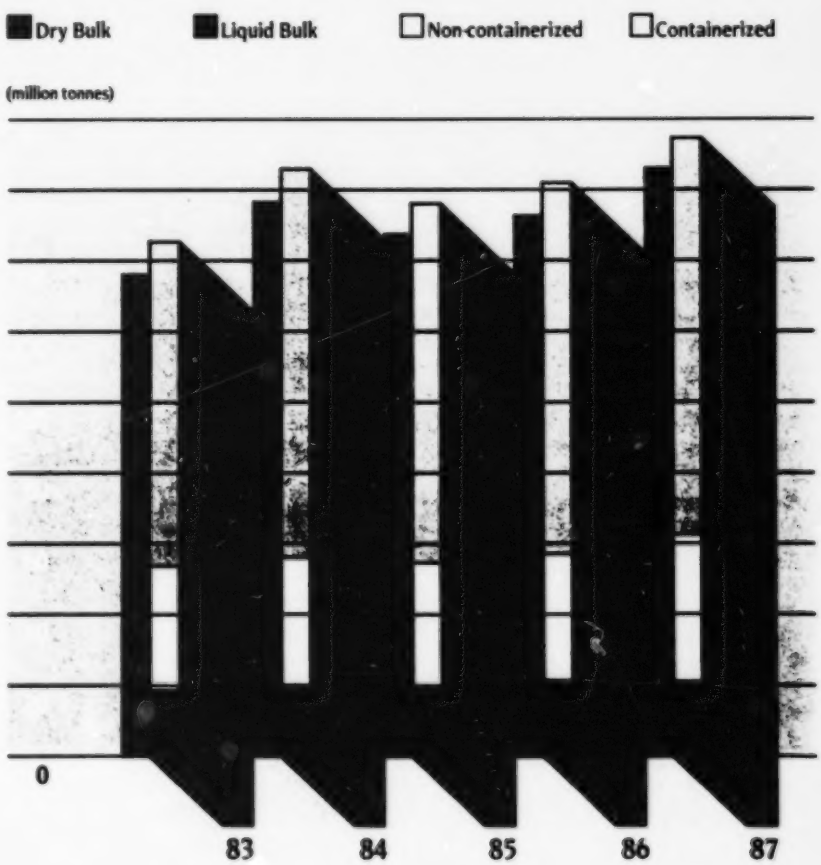
Total tonnage handled through Ports Canada berths in 1987 was 79 million tonnes, up from 70 million tonnes recorded in 1986. The seven local port corporations handled 75 million tonnes through their facilities, up 17 percent from the 64 million tonnes handled the previous year. Total tonnage through Canada Ports Corporation facilities at its seven ports was down to 4.5 from the almost 6 million tonnes in 1986.

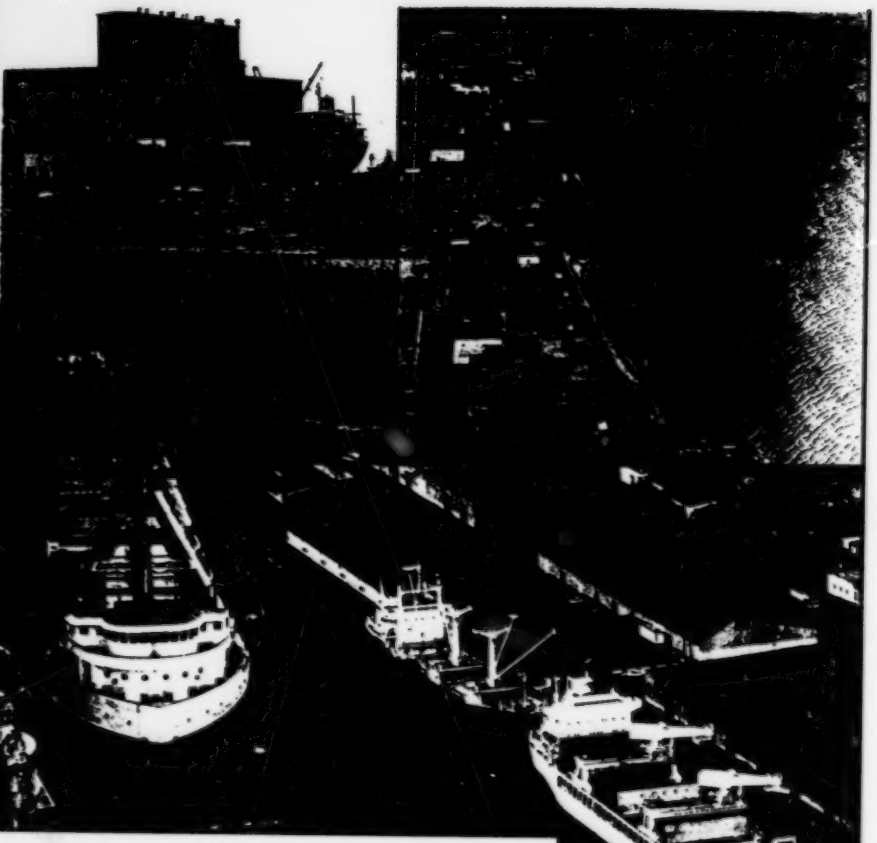
Total grain shipments handled across the Ports Canada system, including private facilities, were up in 1987 to almost 32 million tonnes. This increase in grain traffic came about despite strong competition from other grain exporting countries. This high growth rate in grain traffic is the result of record crops in the prairies, greatly expanded grain sales to Asian countries, particularly China, and the resolution of major labour disputes which has disrupted traffic movements at some of our ports last year. Both Prince Rupert and Québec experienced a doubling of traffic in 1987. Traffic levels at Québec were markedly up because of the resolution of the labour conflict, while at Prince Rupert, intense buying of Canadian grain by Asian countries helped this port attain record grain traffic despite the grain terminal being shutdown in December because of a labour dispute. Grain traffic was also much higher at Vancouver with 25 percent growth; but it was almost unchanged at Montréal where grain traffic grew by 4 percent.

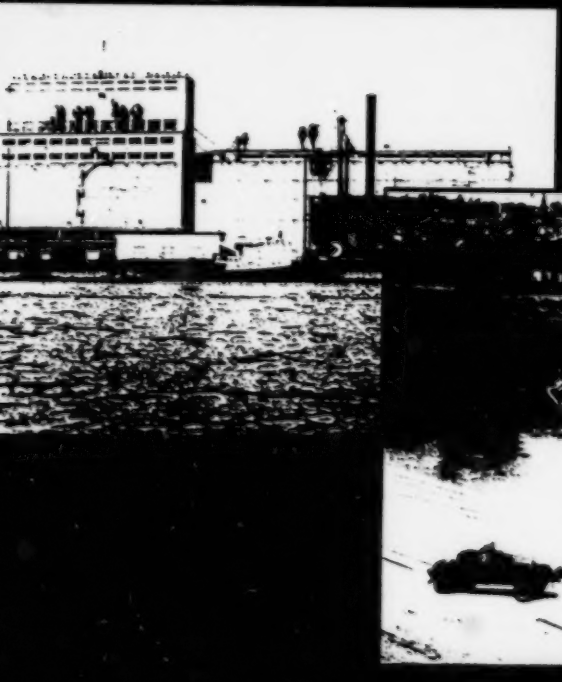
Coal shipments, at 25 million tonnes, were down 5 percent, or 1.4 million tonnes, for 1987 versus the previous year. This decline was primarily due to the complete disappearance of ship-to-ship transfer of coal at the Port of Sept-Îles. In 1987, the Port of Sept-Îles handled U.S. coal exports transshipments of 828,000 tonnes.

Containerized cargo volume through Ports Canada facilities was up 12 percent in 1987 to 11.1 million tonnes or 1.3 million TEUs (20-foot equivalent units). On the basis of tonnage, 94 percent of container traffic was either imports (48 percent) or exports (52 percent) and 6 percent handled in domestic trade. This growth came despite increasing concern over Canadian cargo being diverted through U.S. ports. Of Canada's four major container ports, Montréal, Vancouver and Halifax experienced strong growth rates in 1987. However, container tonnage at Saint John was down due to several shipping lines dropping Saint John as a port of call.

Five Year Review of Traffic



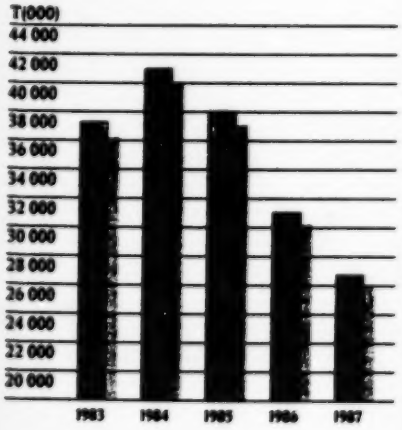




Performance Highlights

Total port traffic was 26.7 million tonnes
The Corporation paid a dividend of $1 million.
Total grain traffic increased at the Ports of Prescott and Port Colborne to 265,000 tonnes and 93,000 tonnes respectively.

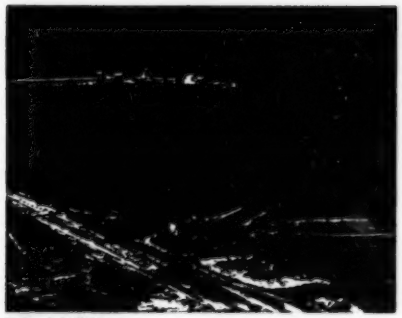
Total Traffic



he 1983 *Canada Ports Corporation Act*, in setting forth the objective of the national ports policy for Canada, not only called for the establishment of local port corporations at ports which met certain criteria, but also provided for the administration of non-corporate ports within a national administrative system. This latter group, now collectively referred to as Divisional Ports, includes Belledune, Chicoutimi/Baie des Ha! Ha!, Churchill, Port Colborne, Prescott, Sept-Îles and Trois-Rivières. These ports are directly administered by the Canada Ports Corporation.

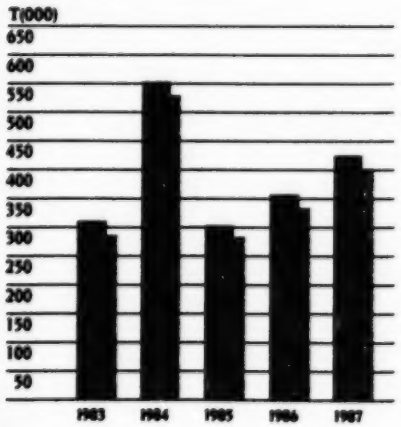
The Divisional Ports play a fundamental role in the regional and local economies of the geographic areas in which they are located. They serve traffic movements, both historic and newly developing. Local industries, which are generally resource based, are dependent on the terminal facilities provided by the ports as they are the sole or primary link to markets, both national and international. The majority of the commodities handled by the Divisional Ports are dry bulk and liquid bulk; grain, salt, various mineral ores, coal and a variety of petroleum products. Some of these ports also handle forest products while most accommodate some degree of general cargo.

From the perspective of the Ports Canada system, the sphere of influence of a Divisonal Port may be limited to a more regional than national hinterland but the overall socio-economic well-being of the community, in terms of regional and industrial development and transportation infrastructure, is clearly linked to the port itself.



Port of Belledune

Total Traffic (Port of Belledune)



Traffic Review

The Divisional Ports handled a total of 26.7 million tonnes, a decrease of 14 percent from the 1986 level of 31.2 million tonnes. This tonnage represented 15 percent of the total traffic handled by the Ports Canada system, a decrease of 4 percent over the 1986 figure of 19 percent. Of the total figure of 26.7 million tonnes, 4.5 million tonnes, or 17 percent, were handled at terminal facilities owned by the Corporation. The corresponding 1986 figure was 5.8 million tonnes, or 19 percent.

The majority of the downturn was experienced at the Port of Sept-Îles and was generated by factors external to the Corporation. The iron ore traffic of the Iron Ore Company and Wabush decreased by 2.6 million tonnes and there was no ship-to-ship transfer of coal whereas in 1986, this coal traffic accounted for

838,000 tonnes. Also of significance, was the decrease in grain traffic at the Port of Trois-Rivières from 2.1 million tonnes to 1.8 million tonnes. In 1986, the grain traffic at the port benefited indirectly from the prolonged work stoppage at the Port of Québec.

Financial Overview

In general, income and expenditures reflect the lower traffic levels, an effort to remain financially prudent, a corporate responsibility to the shareholder and the completion stages of major terminal development projects.

Revenue from Operations: Operating revenues for 1987 were $13.3 million, down 11 percent from the 1986 level of $15 million. This generally reflects the overall decrease in tonnage handled at the ports, most notable at Sept-Îles, Trois-Rivières and Churchill. The grain elevator operations at Port Colborne entered the second year of a lease to a private operator and produced total revenues lower than in 1986.

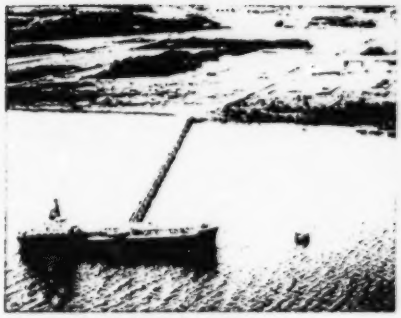
Operating Expenses: Operating expenses decreased $941,000 or 6 percent from the 1986 level. Significantly, salaries and employee benefits decreased 9 percent while depreciation and grants-in-lieu-of-taxes remained relatively stable.

Investment Income: Investment income of $4.4 million was down 15 percent from the 1986 figure of $5.2 million due to a lower investment base resulting from a dividend payment of $1 million and overall lower yields in 1987.

Income from Operations: Income from operations before depreciation, amounted to $1.4 million compared to $2.2 million in 1986. Provision for depreciation of $2.8 million resulted in an operating loss of $1.4 million for 1987 compared to an operating loss of $0.7 million in 1986.

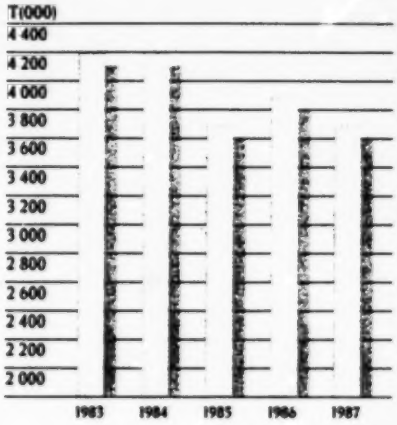
Net Income: Prior to accounting for its share in the loss of Ridley Terminals Inc., the Corporation achieved a net income of $2.9 million compared to $4.3 million in 1986. The 1987 loss recorded on its investment in Ridley Terminals Inc. was $4 million. In 1987, the net loss of the Corporation was $1.1 million compared to a net loss of $1.7 million in 1986.

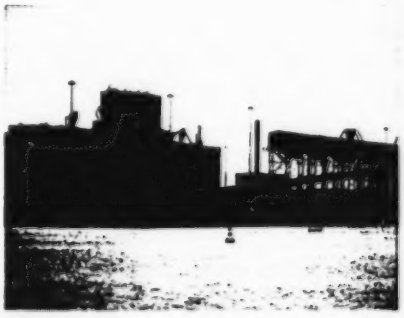
Dividend: The Corporation paid to the shareholder a dividend of $1 million, with respect to the 1986 financial year, set at 30 percent of net income before its share in the loss of Ridley Terminal Inc. This figure represents 28 percent of the total Ports Canada dividend payment of $12.2 million.



Ports of Chicoutimi/Baie des Ha! Ha!

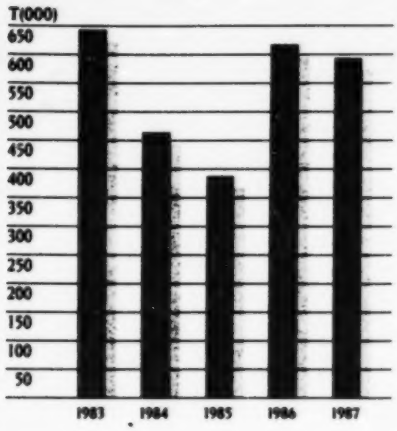
Total Traffic (Ports of Chicoutimi/Baie des Ha! Ha!)

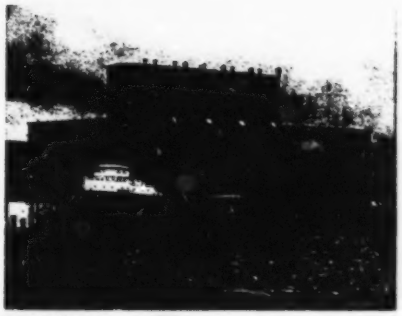




Port of Churchill

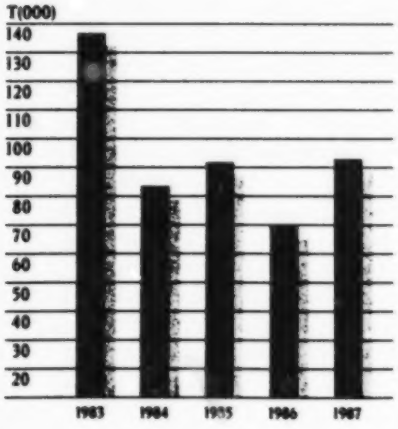
Total Traffic (Port of Churchill)





Port Colborne

Total Traffic (Port Colborne)



Contributed Capital: The federal government forgave non-interest bearing loans and accrued interest in the amount of $23.3 million, related to Belledune, Chicoutimi, Churchill and Sept-Îles.

Capital Investments: The Corporation spent $3.5 million on fixed assets in 1987 compared to $16.4 million in 1986. A total of $2.1 million in grant funding was provided by the federal government for completion of and continuation of projects at Sept-Îles and Churchill. Significant expenditures of $465,000 and $384,000 were also made at Trois-Rivières and Prescott respectively.

Principal Operations: The principal operations of the Canada Ports Corporation are defined by the activities of the Divisional Ports.

Port of Belledune

The Port of Belledune, located in north eastern New Brunswick, is a bulk-loading terminal used primarily by Belledune Fertilizer. Other major users include Brunswick Mining and Smelting and Shell Canada. Total traffic increased 19 percent to 425,000 tonnes with the traditional commodities of phosphate and petroleum products predominant.

Total revenues were $200,000 compared to $188,000 in 1986. Operating loss was $25,000 compared to $33,000 in 1986. Belledune had a net loss of $34,000, slightly larger than the 1986 loss of $26,000.

Ports of Chicoutimi/Baie des Ha! Ha!

The Port of Chicoutimi, located at the head of the Saguenay River, is a major economic and transportation centre, providing a fundamental service to the region's resource-based industry. The port is linked traditionally and geographically to Baie des Ha! Ha!, located downstream from Chicoutimi, where private wharf facilities owned by Alcan handle commodities used in the production of aluminum. Total port traffic at Chicoutimi decreased 10 percent to 434,000 tonnes compared to 482,000 tonnes in 1986.

Total revenues decreased slightly from $1.2 million in 1986 to $1 million in 1987. Operating loss was $15,000 compared to an operating income of $16,000 in 1986. Net income was $453,000, in comparison with $657,000 in 1986.

In Baie des Ha! Ha!, total traffic was down marginally from 3.4 million tonnes in 1986 to 3.3 million tonnes in 1987. Total revenues were $112,000 compared to $119,000 in 1986.

Operating income fell to $7,000 compared to $18,000 in 1986 while a net income of $19,000 was achieved in relation to the 1986 net income of $48,000.

Port of Churchill

The Port of Churchill, located on the western shore of Hudson Bay continued its unique role in the export of western Canadian grain and in the resupply of northern communities. The port handled 569,000 tonnes of grain, virtually the same as handled in 1986.

A major $7.7 million dredging program to provide a water depth of 11.6 metres at low tide was completed. Also in full operation was the new shipberthing tug, the "H. M. Wilson", completed at a cost of $3.2 million and funded through the Canada-Manitoba Economic and Regional Development Agreement.

Total revenues of $6.8 million were down 6 percent from the 1986 figure of $7.2 million. Operating loss was $342,000 compared to a 1986 operating income of $214,000. The 1987 net income was $239,000 compared to $743,000 in 1986.

Port Colborne

In 1986, grain elevator operation at Port Colborne, located at the south-end of the Welland Canal, was leased on a long-term basis to Goderich Elevators Limited of Ontario, and 1987 represented the first full year of operation under this arrangement. The company installed a grain cleaner to provide additional service to customers and made inroads in the United States market for Canadian prairie wheat and oat. Total grain traffic increased 33 percent from 70,000 tonnes in 1986 to 93,000 tonnes.

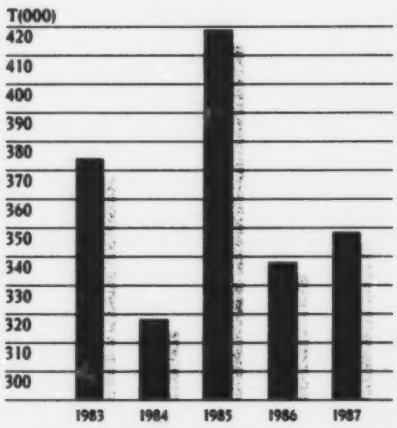
Total revenues were $109,000 compared to $421,000 in 1986. The 1987 operating loss was $574,000, a significant improvement over the 1986 operating loss of $1 million. The net loss was $159,000 compared to a net loss of $465,000 in 1986.

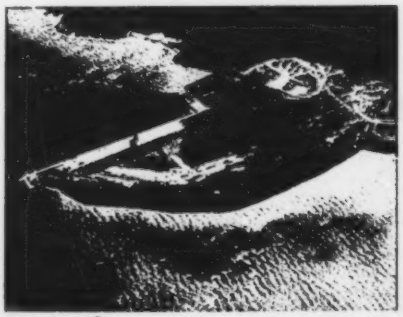
Port of Prescott

The primary function of the Port of Prescott, located 200 km west of Montréal on the St. Lawrence River, is the handling of grain through its 154,000-tonne elevator. Total grain traffic amounted to 265,000 tonnes, up from the 1986 figure of 235,000 tonnes. Overall port traffic increased 3 percent over the 1986 level of 338,000 to 349,000 tonnes. This included 77,000 tonnes of salt. Capital expenditures amounted to $384,000 including the replace-

Port of Prescott

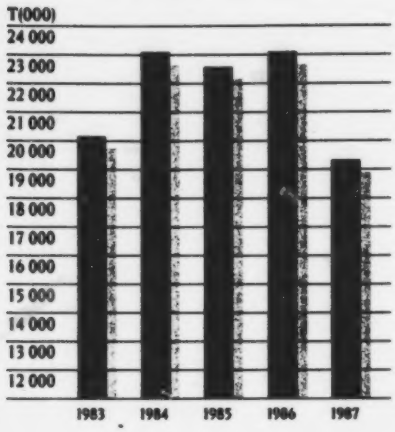
Total Traffic (Port of Prescott)





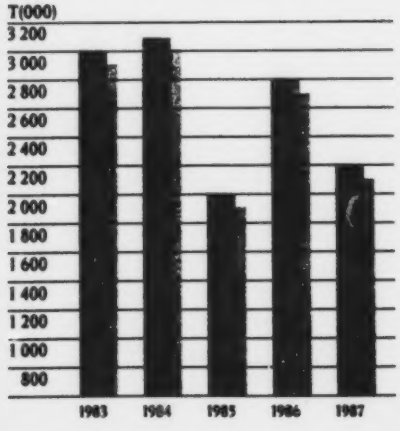
Port of Sept-Îles

Total Traffic (Port of Sept-Îles)



Port of Trois-Rivières

Total Traffic (Port of Trois-Rivières)



ment of five roof hoppers and repaving of the entrance roads.

Total revenues were $2.3 million compared to $2.7 million in 1986. Operating loss was $154,000, down from the 1986 operating income of $224,000. The 1987 net income was $1.3 million, down 32 percent from the 1986 net income of $1.9 million.

Port of Sept-Îles

The Port of Sept-Îles, located on the north shore of the St. Lawrence River, 650 km downstream from Québec City, serves the iron ore mining industry of Quebec and Labrador. Total port traffic decreased 16 percent from 23.1 million tonnes in 1986 to 19.3 million tonnes in 1987. This decrease was due primarily to a drop in the iron ore traffic of the Iron Ore Company and Wabush Mines from 21 million tonnes in 1986 to 18.4 million tonnes in 1987. For the first time in seven years, there was no ship-to-ship transfer of coal which accounted for 838,000 tonnes in 1986. The new Pointe-Noire terminal was operational and new traffic included bulk salt movements. Major repairs and renovations were undertaken at the Pointe-aux-Basques wharf.

Total revenues were $878,000 compared to $1.1 million in 1986. The 1987 operating loss was $271,000 compared with an operating loss of $63,000 in 1986. Net income fell to $91,000 from the 1986 level of $429,000.

Port of Trois-Rivières

The Port of Trois-Rivières, strategically located on the north shore of St. Lawrence, midway between Montréal and Québec City, handles a wide variety of cargoes including grain, forest products, mineral ores and petroleum products. Total port tonnage was 2.2 million tonnes compared to 2.8 million tonnes in 1986. The decrease was due primarily to a return to a more normal level of grain traffic, 1.8 million tonnes compared to 2.1 million tonnes in 1986. In that year, the port benefitted indirectly from the lockout at the Port of Québec and handled significant additional traffic. During the year, the port undertook the construction of a mooring dolphin at Section 20, providing the western sector of the port with more flexibility in handling vessels.

Total revenues amounted to $1.9 million compared to $2 million in 1986. Operating income was $173,000, almost identical to the 1986 figure of $175,000. The port had a net income of $993,000, a slight decrease from the 1986 net income of $1.1 million.

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of Canada Ports Corporation as at December 31, 1987 and the statements of income, surplus, contributed capital and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Chartered Accountants

Ottawa, Ontario
February 19, 1988

Balance Sheet as at December 31, 1987

(in thousands of dollars)

Assets	**1987**	1986
Current		
Cash	**$ 351**	$ 225
Investments (Note 3)	**26,715**	27,864
Accounts receivable	**2,303**	2,252
Due from Canada	**1,940**	458
Materials and supplies	**338**	352
	31,647	31,151
Investments (Note 3)	**18,293**	18,225
Investment in Ridley Terminals Inc. (Note 4)	**7,465**	11,459
Fixed assets (Note 6)	**38,009**	39,528
	$95,414	$100,363
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 7)	**$ 3,268**	$ 6,158
Grants in lieu of municipal taxes	**542**	491
	3,810	6,649
Accrued employee benefits	**1,392**	1,303
Loans from Canada (Note 8)	**1,487**	24,893
	2,879	26,196
Equity of Canada		
Contributed capital	**73,638**	55,896
Contribution to Canada (Note 10)	**—**	(5,589)
Surplus	**15,087**	17,211
	88,725	67,518
	$95,414	$100,363

On behalf of the Board

The Honourable A.R. Huntington
Chairman

Jean Michel Tessier
President and
Chief Executive Officer

Statement of Income
for the year ended December 31, 1987

(in thousands of dollars)

	1987	1986
Revenue from operations	$ 13,331	$ 14,959
Operating and administrative expenses — net	10,677	11,510
Depreciation	2,822	2,877
Grants in lieu of municipal taxes	1,202	1,255
	14,701	15,642
Net loss from operations	(1,370)	(683)
Investment income	4,368	5,149
Interest expense	(123)	(128)
Net income before the undernoted items	2,875	4,338
Net loss of a port established as a local port corporation (Note 11)	—	(988)
Share in loss of Ridley Terminals Inc. (Note 4)	(3,994)	(5,090)
Net loss	$ (1,119)	$ (1,740)

Statement of Contributed Capital
for the year ended December 31, 1987

(in thousands of dollars)

	1987	1986
Balance at beginning of the year	$55,896	$130,734
Contributed capital transferred to a local port corporation (Note 11)	—	(79,209)
Forgiveness of non-interest bearing loans and accrued interest (Note 8)	23,331	4,371
Contribution to Canada (Note 10)	(5,589)	—
Balance at end of the year	$73,638	$ 55,896

Statement of Surplus (Deficit)
for the year ended December 31, 1987

(in thousands of dollars)

	1987	1986
Balance at beginning of the year As previously reported	$16,889	$(57,966)
Adjustment of prior year's share in loss of Ridley Terminals Inc. (Note 4)	322	322
As restated	17,211	(57,644)
Deficit transferred to a local port corporation (Note 11)	—	76,595
Net loss	(1,119)	(1,740)
Dividend to Canada	(1,005)	—
Balance at end of the year	$15,087	$ 17,211

Statement of Changes in Financial Position for the year ended December 31, 1987	(in thousands of dollars) 1987	1986
Operating Activities		
Net loss	$(1,119)	$(1,740)
Items not affecting cash		
Depreciation	2,822	5,483
Share in loss of Ridley Terminals Inc.	3,994	5,090
Other	95	127
Increase in operating components of working capital	(4,358)	(2,727)
Cash provided by operating activities	1,434	6,233
Financing Activities		
Capital grants	2,144	12,993
Loans from Canada	(75)	(5,524)
Contribution to Canada	—	(26,694)
Dividend to Canada	(1,005)	—
Other	—	(175)
Cash provided (required) by financing activities	1,064	(19,400)
Investing Activities		
Additions to fixed assets	3,517	16,379
Proceeds on disposal of fixed assets	4	(187)
Cash required by investing activities	3,521	16,192
Decrease in cash and short-term investments	(1,023)	(29,359)
Cash and short-term investments at beginning of the year	28,089	62,381
Cash and short-term investments transferred to a local port corporation (Note 11)	—	(4,933)
Cash and short-term investments at end of the year	$27,066	$28,089

Notes to Financial Statements
December 31, 1987

1. Canada Ports Corporation Act
Canada Ports Corporation is established under the *Canada Ports Corporation Act*. The Act provides for the establishment of local port corporations to manage and operate selected ports. The Corporation is named in Part II of Schedule C of the Financial Administration Act and is exempt from income tax.

2. Significant accounting policies
a) Financial statements
The financial statements of the Corporation include the accounts of all the ports and other facilities under its administration. The activities of the local port corporations are excluded from the financial statements from the date of their establishment.

b) Investments
The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

c) Investment in Ridley Terminals Inc.
The investment in Ridley Terminals Inc. is accounted for on the equity basis.

d) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

e) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

f) Insurance
The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

g) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

h) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3. Investments
Investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. As at December 31, 1987, and 1986, the market value of the current investments approximates their amortized cost. At December 31, 1987, the market value of the long-term investments is $20,248,000 ($22,050,000 in 1986).

4. Investment in Ridley Terminals Inc.

Ridley Terminals Inc. ("RTI") was incorporated on December 18, 1981, under the *Canada Business Corporations Act* for the purpose of constructing and operating coal terminal facilities on Ridley Island in Prince Rupert, British Columbia. RTI is exempt from income taxes.

RTI's throughput revenue is currently dependent upon the production of two coal producers. The coal producer who currently ships the larger tonnage through RTI's facilities has entered into a price arbitration process with its customers. The results of this arbitration process could have a significant economic impact on the coal producer, which in turn could affect the relations of RTI with this customer. The current carrying value of RTI's terminal facility is dependent on a viable level of coal throughput from its customers.

At December 31, 1987, the Corporation had acquired, at a cost of $23,021,400, 90% of the issued common shares ($900) and 100% of the Class A preference shares ($23,020,500) of RTI. As of that date, Fednav Limited had acquired, at a cost of $23,020,600, 10% of the issued common shares ($100) and 100% of the Class B preference shares ($23,020,500) of RTI.

The Corporation's investment in RTI is accounted for on the equity basis. Application of this method in years in which RTI has a deficit requires that the Corporation recognize a share of the results of operations of RTI equal to its participation in the total equity of RTI which, at December 31, 1987, was 50%. In years in which RTI has retained earnings, the Corporation's share of the results of operations will be proportionate to its shareholding in common shares, after recognizing the dividend requirements of the two classes of preference shares.

During the year, RTI has negotiated a reduction of $644,000 in the property tax assessments for 1985. The Corporation's deficit balance at January 1, 1986, has been adjusted accordingly by $322,000 representing the Corporation's 50% share of the amount received.

The investment in Ridley Terminals Inc. is composed of:

	(in thousands of dollars) 1987	1986
Balance at beginning of the year	$11,459	$16,549
Share in loss	(3,994)	(5,090)
Balance at end of the year	$ 7,465	$11,459

A summary of the balance sheet of RTI as at December 31, 1987 as reported in its audited financial statements shows:

	(in thousands of dollars) 1987	1986
Assets		
Current	$ 1,786	$ 4,285
Fixed	219,245	224,792
Other	75	83
	$221,106	$229,160
Liabilities		
Current	$ 1,387	$ 1,225
Long-term debt	203,608	203,835
	204,995	205,060
Equity	16,111	24,100
	$221,106	$229,160

RTI has two long-term financing agreements with a major Canadian bank as follows:

(a) a construction credit loan agreement which is guaranteed unconditionally by Canada and is further secured by a $250,000,000 subordinate fixed and floating charge collateral demand debenture. On July 1, 1985, all borrowings converted to a fifteen year term loan with specified semi-annual repayments commencing July 31, 1991 through January 31, 2000. Interest on any bank loan is at the bank's prime rate, payable monthly. The Bankers' Acceptance fee is currently 1/2% per annum.

(b) a revolving credit loan agreement which provides an $80,000,000 credit facility for advances on a revolving basis until June 30, 1989 at which time all borrowings will convert to a term loan repayable in specified semi-annual instalments commencing July 31, 1989 through January 31, 1992. Interest on the bank loans is at the bank's prime rate plus 1/4% per annum, payable monthly. The Bankers' Acceptance fee is currently 3/4% per annum.

This agreement is secured by a $350,000,000 first fixed and floating charge collateral demand debenture with the terminal facility as security and an assignment of the lease from the Prince Rupert Port Corporation.

As at December 31, 1987, drawings under these agreements were as follows:

	(in thousands of dollars) 1987	1986
(a) Construction credit loan agreement		
Bankers' acceptances, net of unamortized interest charges	$198,625	$197,940
(b) Revolving credit loan agreement —		
Bank loans	1,000	1,900
Bankers' acceptances, net of unamortized interest charges	3,983	3,995
	4,983	5,895
	$203,608	$203,835

Based on the amounts borrowed under the credit facilities as at December 31, 1987, annual principal repayments over the next five years amount to $625,000 in 1989, $1,625,000 in 1990, $6,862,500 in 1991 and $10,850,000 in 1992.

The Class A preference shares carry a fixed cumulative dividend at a rate of 18% per annum on their stated value. The Class B preference shares carry a fixed cumulative dividend at a rate sufficient to net 20% after tax per annum on their stated value. The annual dividend of 20% on the Class B preference shares is a net sum after deducting an amount equal to the prevailing aggregate federal and provincial corporate income and profits taxes applicable to the dividend.

Holders of the Class A and B preference shares are entitled to interest at the respective dividend rates in the event that dividends accrued are not paid. Unpaid interest compounds annually at the same respective rates. Interest has accrued since April 30, 1982. The preference shares are redeemable at any time at their stated value plus accrued dividends and unpaid interest thereon. Preference dividends and related interest in arrears at December 31, 1987, calculated at tax rates prevailing as at that date with respect to the Class B shares amount to:

	(in thousands of dollars) 1987	1986
Class A preference shares held by Canada Ports Corporation	$27,835	$19,745
Class B preference shares held by Fednav Limited	65,847	46,567
	$93,682	$66,312

The results of operations of RTI for the year ended December 31, 1987, in comparison with the year ended December 31, 1986, are as follows:

	(in thousands of dollars) 1987	1986
Revenue from operations	$27,625	$ 28,793
Operating and administrative expenses	11,736	12,408
Depreciation	6,530	6,594
Interest expense	17,348	19,971
	35,614	38,973
Net loss	$ (7,989)	$ (10,180)

5. Debentures of Saint John Harbour Bridge Authority

The Saint John Harbour Bridge Authority ("the Authority") is indebted in the amount of $14,041,000 (1986 — $14,153,000) to the Corporation which in turn is indebted to Canada in the same amount, in accordance with the provisions of Vote L106B, Appropriation Act No. 7, 1967, 1967-68, c.8. The interest and repayment terms of the parliamentary advances to the Corporation are identical to those of the debentures of the Authority. Under the terms of the agreement between Canada and the Authority, Canada has, in effect, guaranteed the repayment of both principal and interest on the debentures. Accordingly, the debentures received have been offset against the advances and loans payable to Canada such that they are not reflected as an asset and a liability on the balance sheet. Interest income and expense of $964,000 (1986 — $971,000) have been similarly offset and do not appear in the statement of income.

On July 9, 1981, Treasury Board agreed to the transfer of the responsibility for the administration of the indebtedness of the Authority as well as the equivalent loan payable to Canada from the accounts of the Corporation to those of Transport Canada. As at December 31, 1987, Transport Canada has not completed the transfer.

6. Fixed assets

a) Summary

(in thousands of dollars)

		1987			1986
	Depreciation rates %	Cost	Accumulated depreciation	Net	Net
Land	—	$ 4,419	$ —	$ 4,419	$ 5,591
Dredging	2.5-6.7	9,475	5,363	4,112	4,229
Berthing structures	2.5-10	34,261	16,258	18,003	17,293
Buildings	2.5-10	15,763	11,709	4,054	3,929
Utilities	3.3-10	2,741	1,210	1,531	1,602
Roads and surfaces	2.5-10	2,220	1,515	705	433
Machinery and equipment	5-100	18,659	14,450	4,209	5,042
Office furniture and equipment	20	2,590	2,270	320	412
Works under construction	—	656	—	656	997
		$90,784	$52,775	$38,009	$39,528

b) Capital grants

During the year, the Corporation received capital grants totalling $2,144,000 (1986—$12,993,000) towards the construction of capital projects.

c) Capital expenditure commitments

Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $476,000, of which most will be expended in the year ending December 31, 1988.

7. Accounts payable and accrued liabilities

Included in accounts payable and accrued liabilities are deferred revenues for $144,000 (1986—$192,000) and current portion of long-term liabilities for $75,000 (1986—$70,000).

8. Loans from Canada

(in thousands of dollars)

	1987	1986
Loans bearing interest at 6.44% and 9.09% repayable in blended annual instalments of principal and interest of $193,000 and maturing on December 31, 2000	$1,562	$ 1,632
Less: current portion	(75)	(70)
	1,487	1,562
Non-interest bearing loans with indefinite due date	—	17,841
Accrued interest on loans not due and payable	—	5,490
	$1,487	$24,893

During the year, the non-interest bearing loans and the related accrued interest in the amount of $23,331,000 were forgiven by Canada. This amount has been credited to Contributed Capital.

In 1986, deferred interest of $4,371,000 on loans for the construction of terminal facilities at the Port of Saint John was forgiven and was treated as Contributed Capital.

Principal repayment requirements over the next five years amount to $75,000 in 1988, $81,000 in 1989, $87,000 in 1990, $93,000 in 1991 and $100,000 in 1992.

9. Contingencies

Claims aggregating approximately $1,131,000 in respect of lawsuits, guarantees, employee agreements, damages allegedly suffered on the Corporation's property and sundry other matters in dispute have been received by the Corporation but are not reflected in the accounts. In the opinion of the Corporation, the final outcome of such claims should not result in any material financial liability.

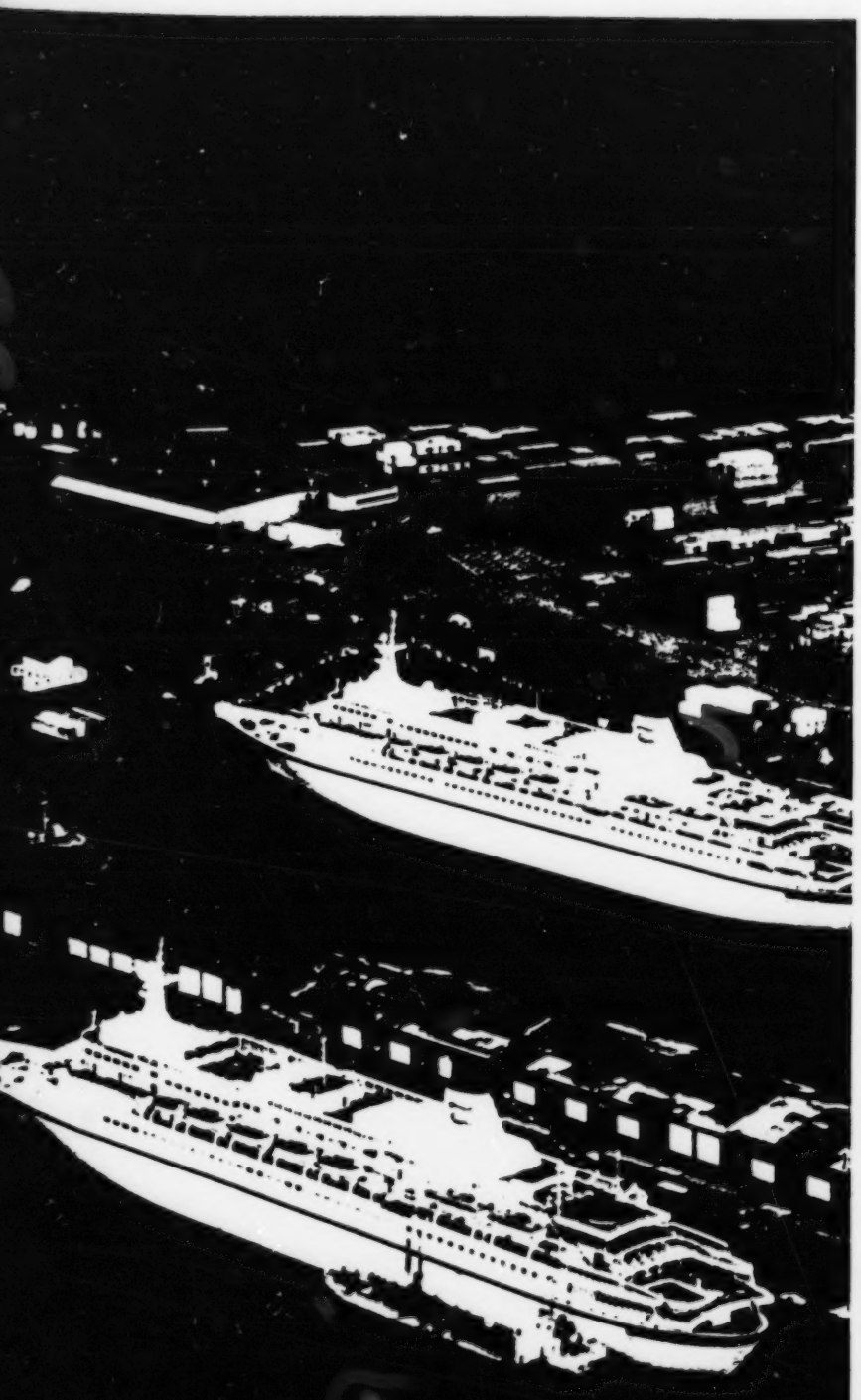
10. Contribution to Canada

Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $5,589,000 have been reclassified to Contributed Capital.

11. Local port corporation

At the closing of business on December 31, 1986, the Port of Saint John, New Brunswick was established as a local port corporation under the name of Saint John Port Corporation. In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to Saint John Port Corporation on that date at their carrying value in the accounts of the Corporation.

The statement of income of the Corporation includes the results of operations of the Port of Saint John for the year ended December 31, 1986.



Performance Highlights

Total cargo volume over HPC facilities registered another record year with an increase of 26% to 4.2 million tonnes.

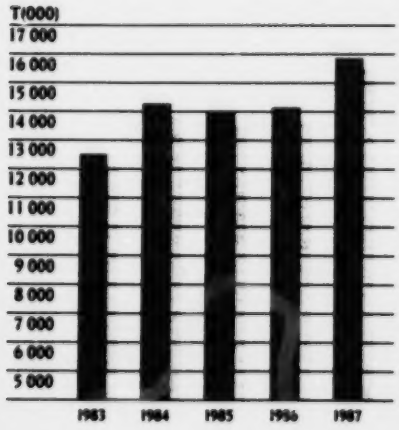
Container cargo over HPC facilities registered another record year with an increase of 23% to 2.8 million tonnes.

Vessel gross registered tonnage at HPC facilities increased by 12% to 18.9 million tonnes.

Passenger traffic attained record proportions with 59 calls carrying in excess of 24,000 passengers.

Approval was obtained to proceed with a 50 meter berth extension at Pier C estimated to cost $5.4 million.

Total Traffic



Halifax Port Corporation

Joint message from the Chairman of the Board and the General Manager and Chief Executive Officer

In all respects, 1987 has been an outstanding year for the Port of Halifax. The port is a world class container port, serving over twenty shipping lines which are regular callers to the port. Halifax is becoming the Canadian base port for shipping lines serving almost every major continent in the world.

Competition among shipping lines, inland transportation systems and ports has been progressively more predominant in the transportation industry. Line rationalization programs have reduced costs for carriers, and therefore have benefitted importers and exporters. Ports are streamlining their operations, becoming more market driven, and offering price incentive schemes in an effort to maintain their market share of the available traffic.

As a result, ports must respond faster to the needs of their customers. Heavy demand on terminals has required more efficient cargo handling systems, faster turnaround cycles, improved labour productivity, and greater investment in terminal equipment and wharf infrastructure.

The Port of Halifax is meeting these challenges and is planning for greater growth in its traffic in the future. The Corporation's goal is to remain very efficient and to improve its position among world class ports.

Capital expenditures

Capital expenditures in 1987 totalled $1.4 million, of which $937,000 was expended in completing the Area 35 Roadway diversion, to enhance the operational efficiency of the Pier 29 terminal. The Pier "C" Berth Expansion project, at a cost of $5.4 million is planned for completion in October 1988, and will increase the length of the Pier "C" container terminal berth to more easily accommodate two large containerships simultaneously and therefore improve efficiency.

Over the past ten years, the port has invested $60 million in new and upgraded port facilities.

Donald A. Parker David F. Bellefontaine

Cargo highlights

A record level of total harbour traffic was attained in 1987, at 15.8 million tonnes of cargo, up from the 14.1 million tonnes recorded in 1986. Imports of crude oil rose 10.1 percent to a level of 4.7 million tonnes, and imports and exports of refined oil increased by 8.6 percent to 3.8 million tonnes in 1987.

For the second consecutive year, container cargo reached a record in 1987; 2.8 million tonnes of containerized cargo was recorded, resulting in an increase of 23.3 percent over the 2.3 million tonnes in 1986. For the two year period 1986 and 1987, containerized cargo has increased by 42.9 percent.

Financial results

Revenue from operations amounted to $12.9 million, up from the $11.0 million in 1986 mainly due to the increase in cargo activity. Total expenses were $11.2 million, as compared to $9.5 million in 1986. Income from operations rose to $1.7 million, an increase of 8.6 percent from 1986. Net interest expense for the year was $0.02 million, compared to net interest expense of $0.1 million a year earlier. Net income was $1.7 million, an increase of $0.4 million from the preceding year.

The Corporation's working capital improved by $1.7 million during the year, of which $1.6 million represented an increase in short-term investments. The short-term investment account increased as a result of improved cash flow from operations during the year.

Personal contributions

The success of the Port of Halifax is attributed to the hard work and dedication of all those individuals and businesses which make the port a first class Canadian port. Port users, waterfront labour, and Corporation staff are sincerely thanked for their efforts over the past year; this teamwork will ensure the success of the port in the future.

The Corporation expresses its sincere gratitude to Raymond V. Beck, who retired as Chairman of the Halifax Port Corporation on January 5, 1988. Mr. Beck who has served the port in many capacities for over four decades, has made a substantial, lasting contribution to the Port of Halifax. His contributions will have a positive effect on the port for many years in the future.

Donald A. Parker
Chairman of the Board

David F. Bellefontaine
General Manager and
Chief Executive Officer

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Halifax Port Corporation as at December 31, 1987, and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act*, and the by-laws of the Corporation.

Chartered Accountants

Halifax, Nova Scotia
February 3, 1988

Balance Sheet as at December 31, 1987

Assets	**1987**	1986
Current		
Cash	**$ 227,232**	$ 52,148
Investments (Note 3)	**5,620,579**	3,999,445
Accounts receivable	**2,741,320**	2,590,519
Materials and supplies	**102,783**	92,842
	8,691,914	6,734,954
Investments (Note 3)	**33,300**	33,195
Fixed (Note 4)	**53,243,487**	53,839,280
	$61,968,701	$60,607,429
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 911,350**	$ 837,109
Grants in lieu of municipal taxes	**201,002**	32,702
Deferred revenues	**892,851**	858,106
Current portion of long term debt	**303,688**	276,080
	2,308,891	2,003,997
Accrued employee benefits	**662,746**	682,648
Loans from Canada (Note 5)	**3,820,233**	34,680,853
	6,791,870	37,367,498
Equity		
Contributed capital (Note 6)	**53,796,865**	72,136,346
Contribution to Canada (Note 6)		(1,920,000)
Surplus (deficit)	**1,379,966**	(46,976,415)
	55,176,831	23,239,931
	$61,968,701	$60,607,429

On behalf of the Board

Donald A. Parker
Chairman

David F. Bellefontaine
General Manager and
Chief Executive Officer

Statement of Income and Surplus

for the year ended December 31, 1987	1987	1986
Revenue from operations	$ 12,866,025	$ 11,037,012
Operating and administrative expenses	8,211,102	6,788,356
Depreciation	2,033,490	2,002,115
Grants in lieu of municipal taxes	907,200	668,352
	11,151,792	9,458,823
Income from operations	1,714,233	1,578,189
Investment income	418,840	361,937
Interest expense	(440,000)	(476,582)
Gain (loss) on disposal of fixed assets	3,778	(407,262)
	(17,382)	(521,907)
Net income before extraordinary item	1,696,851	1,056,282
Extraordinary item		
Gain on sale of land		249,000
Net income	1,696,851	1,305,282
Deficit, beginning of year	(46,976,415)	(48,281,697)
Deficit reduction (Note 6)	46,976,415	
	1,696,851	(46,976,415)
Dividend to Canada	316,885	
Surplus (deficit), end of year	$ 1,379,966	$(46,976,415)

Statement of Changes in Financial Position

for the year ended December 31, 1987	1987	1986
Operating activities		
Net income before extraordinary item	$ 1,696,851	$ 1,056,282
Depreciation	2,033,490	2,002,115
Other	(24,388)	437,762
Decrease (increase) in operating components of working capital	116,545	(3,997,423)
Cash provided by (applied to) operating activities	3,822,498	(501,264)
Financing activities		
Loans from Canada	(276,079)	4,123,920
Contribution to Canada		(1,920,000)
Dividend to Canada	(316,885)	
Cash provided by (applied to) financing activities	(592,964)	2,203,920
Investing activities		
Proceeds from sale of land		249,000
Additions to fixed assets	(1,443,777)	(2,080,510)
Other	10,461	355,179
Cash applied to investing activities	(1,433,316)	(1,476,331)
Increase in cash and short-term investments	1,796,218	226,325
Cash and short-term investments, beginning of year	4,051,593	3,825,268
Cash and short-term investments, end of year	$ 5,847,811	$ 4,051,593

Notes to Financial Statements
December 31, 1987

1. In accordance with the *Canada Ports Corporation Act*, sections 6.1 and 6.2, a petition for the establishment of a local port corporation at the Port of Halifax was approved and the Halifax Port Corporation was established effective June 1, 1984.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation – Port of Halifax to the Halifax Port Corporation.

2. Significant accounting policies

a) Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

b) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

d) Insurance
Canada Ports Corporation assumes substantially all risks against fire and general perils, as well as worker compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

e) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

f) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3. Investments

	1987		1986	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Short term	$5,620,579	$5,706,200	$3,999,445	$4,045,400

	Amortized Cost	Market Value	Amortized Cost	Market Value
Long term	$ 33,300	$ 32,342	$ 33,195	$ 33,242

4. Fixed assets

		1987			1986
	Depreciation Rates (%)	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land		$23,324,988	$	$23,324,988	$23,324,979
Dredging	2.5 – 6.7	2,596,947	2,227,834	369,113	395,672
Berthing structures	2.5 – 10	32,296,191	17,396,301	14,899,890	15,351,283
Buildings	2.5 – 10	17,229,911	11,115,912	6,113,999	6,515,802
Utilities	3.3 – 10	4,442,159	1,832,375	2,609,784	2,750,137
Roads and surfaces	2.5 – 10	7,426,910	3,689,886	3,737,024	3,230,524
Machinery and equipment	5 – 100	9,276,740	7,556,896	1,719,844	1,840,976
Office furniture and equipment	20	865,401	607,691	257,710	301,249
Projects under construction		211,135		211,135	128,658
		$97,670,382	$44,426,895	$53,243,487	$53,839,280

5. Loans from Canada

	1987	1986
Non-interest bearing loan with indefinite due date	$	$25,555,762
Accrued interest on loans not due and payable		5,001,171
		30,556,933
10% loan maturing on December 31, 1996 repayable in blended annual principal and interest payments of $716,080	4,123,920	4,400,000
Less current portion repayable within one year	303,687	276,080
	3,820,233	4,123,920
	$3,820,233	$34,680,853

The loans from Canada are unsecured.

6. Contributed capital

	1987	1986
Balance at beginning of year	$72,136,347	$72,136,347
Forgiveness of non-interest bearing loans and related accrued interest (Note a)	30,556,933	
Contribution to Canada (Note b)	(1,920,000)	
Deficit reduction (Note c)	(46,976,415)	
Balance at end of year	$53,796,865	$72,136,347

a) During the year, the non-interest bearing loans and the related accrued interest in the amount of $30,556,933 were forgiven by Canada. This amount has been credited to Contributed Capital.

b) Contribution to Canada
Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $1,920,000 have been reclassified to Contributed Capital.

c) Equity of Canada
During the year, the Minister of Transport approved a reduction of the deficit as at January 1, 1987, in the amount of $46,976,415 with a corresponding reduction in Contributed Capital.

Board of Directors

Donald A. Parker
Chairman
President of various local companies
Dartmouth, N.S.

Paul M. Murphy, Q.C.
Vice-Chairman
Partner
Patterson Kitz
Halifax, N.S.

Gerald E. Simmons
Retired Shipping Executive
Former Chairman of Halifax Port Authority
Ottawa, Ontario

Florence R. Irwin
Partner
Canadian Annuity Quotations and Insurance Services Ltd.
Bedford, N.S.

Michael J. Proude
President
International Longshoremen's Association Local 269
Dartmouth, N.S.

Lois A. Glibbery
Property Marketing Specialist
Royal LePage Real Estate Services Ltd.
Halifax, N.S.

Harald A. Norve
President
H. A. Norve & Associates Ltd.
Halifax, N.S.

Officers of the Corporation

Donald A. Parker
Chairman

Paul M. Murphy, Q.C.
Vice-Chairman

David F. Bellefontaine
General Manager and Chief Executive Officer

Lorraine E. Brenton
Corporate Secretary

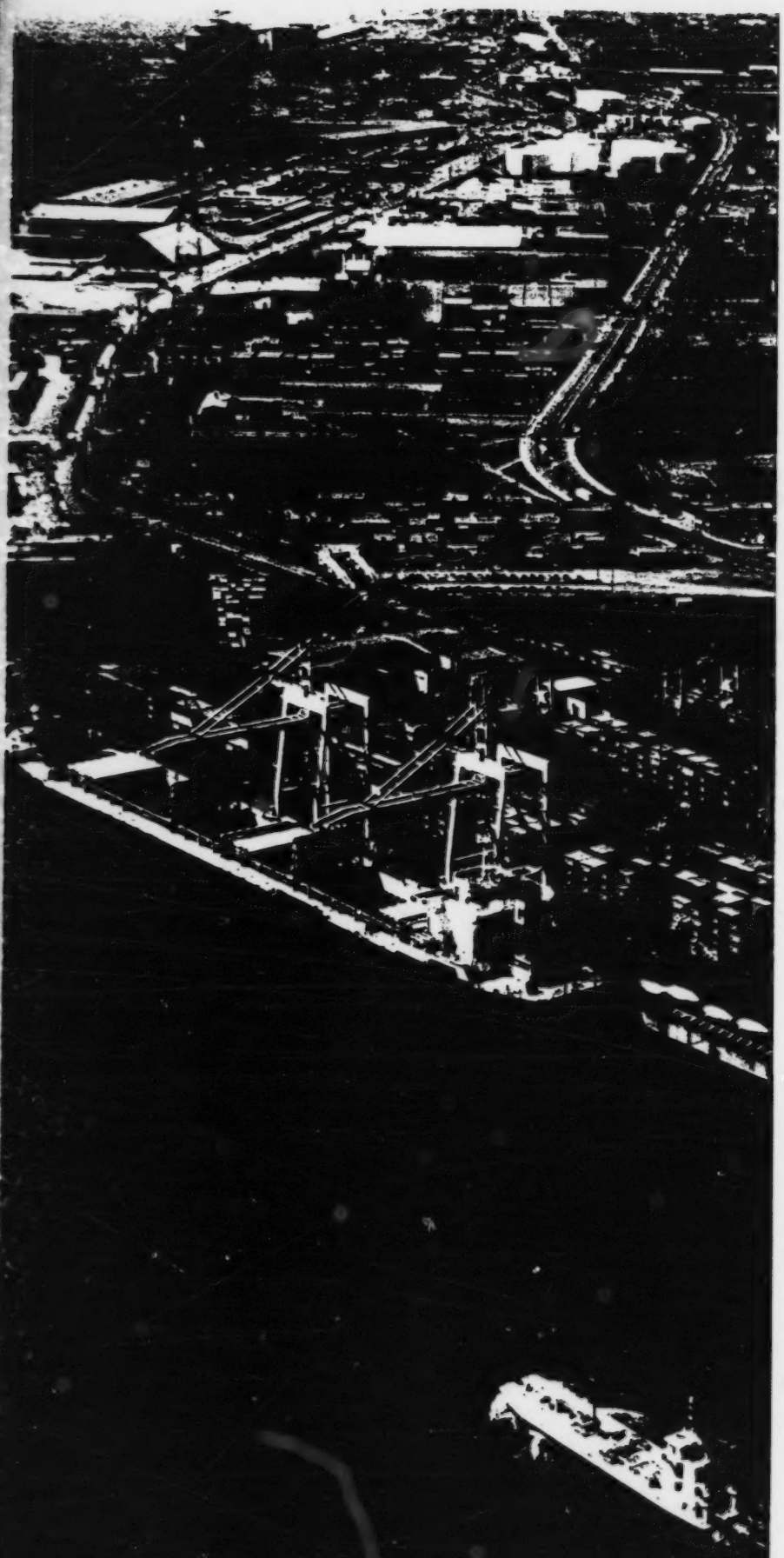
Richard T. Pentland
Director of Engineering

Dennis W. Creamer
Director of Finance and Administration

Robert A. Kaye
Director of Marketing

Captain Claude L. Ball
Director of Operations Harbour Master

Peter J. MacKeigan
Chief Legal Officer



Performance Highlights

Total traffic climbed to 21.9 million tonnes, marking our fifth consecutive record year in container-handling.

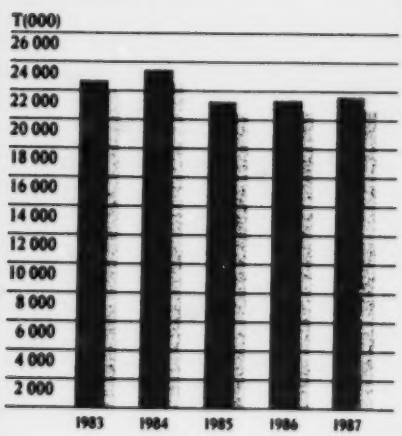
Up 11.9%, containerized traffic set two new records: 5.5 million tonnes and 574,522 containers (TEUs).

General cargo traffic climbed to 6.7 million tonnes, a peak that accounts for over 30% of our total traffic.

Our eighth year of positive financial results, with a net income of $15.4 million.

Nearly $18 million allocated for expanding and improving facilities.

Total Traffic



Montréal Port Corporation

Joint message from the Chairman of the Board and the General Manager and Chief Executive Officer

Montréal, a major multifunctional world port and by far Canada's Number One Container Port, achieved results in 1987 that were not only satisfying but highly encouraging.

Total traffic, which rose to 21.9 million metric tonnes of a wide variety of goods, grew through a record volume of containerized cargo, a noticeable increase in petroleum-product shipments and a slight improvement in grain movements. Traffic in other dry and liquid bulk category declined in 1987.

General cargo

In the fiercely competitive market for containerized cargo, the Port of Montréal recorded an 11.9 percent increase which marked our fifth consecutive record-setting year.

For the first time ever, the port's container traffic reached 5.5 million tonnes after totalling 4.9 million in 1986. We handled a record number of 574,522 containers (TEUs), almost 43,000 more than in 1986. We posted gains in every market, and our traffic has grown at an average annual rate of 11.3 percent for the past five years.

As a result of our success in the field of containerized cargo, general-cargo traffic in 1987 reached an unprecedented level in the history of our port. It climbed by 10.8 percent, or some 600,000 tonnes, to 6.7 million tonnes.

This traffic, which also includes 1.2 million tonnes of breakbulk cargo, is clearly growing at the port. Over the past ten years, it has posted a net gain of 3.5 million tonnes.

Ronald Corey Dominic J. Taddeo

Bulk cargo

Grain shipments increased by 100,000 tonnes or 2.6 percent to 4.1 million tonnes in 1987. This traffic still remains below the levels it attained at the turn of the decade.

While the country as a whole performed well, despite the persistence in 1987 of generally difficult market conditions, and although the Port of Montréal is doing well compared to other grain-handling ports along the St. Lawrence, the fact remains that the growth in Asian markets gives western ports an edge.

Our grain traffic nonetheless remains important to us and we expect to see more activity in our export elevator, whose efficiency has been further enhanced with the addition of a new shipping gallery.

Petroleum-product shipments rose to 6.1 million tonnes from 5.7 million tonnes in 1986, an increase of 7.3 percent. A general increase in the volume of refined products more than offset the slump in crude-oil exports.

Finally, shipments of other dry and liquid bulk slipped from 5.8 million tonnes in 1986 to 5 million tonnes in 1987. This 15.5 percent decline is due to various factors beyond our control that particularly affected iron ore, potash, salt and sugar.

Highlights of the fiscal year

We are proud to submit positive financial results for the eighth consecutive year. In the fiscal year just ended, our revenue from operations totalled $59.8 million, net income rose to $15.4 million and capital expenditures amounted to $17.8 million.

Outlook

We have every reason to believe that 1988 will be even better than last year.

Because of our highly diversified traffic and outstanding performance in the containerized-goods market, we can look to the future with more confidence than ever. Our top priority remains improving and expanding our facilities to meet the steadily growing needs of our customers.

Our five-year plan for the years 1988-92 reflects capital expenditures in the order of $120 million. Half of this amount will be spent on increasing the capacity and efficiency of our container terminals and some $20 million will be deployed on upgrading and expanding our railway system.

If the Port of Montréal has enjoyed such tremendous success in an industry where fierce competition is the norm, it is largely due to the individual and team efforts made by everyone involved in port activity. To our employees as well as to our colleagues in the shipping industry, we extend our heartfelt gratitude.

Ronald Corey
Chairman of the Board

Dominic J. Taddeo
General Manager and
Chief Executive Officer

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the statements of income, contributed capital, contributions to Canada, retained earnings and changes in financial position of the Montréal Port Corporation for the fiscal year ended December 31, 1987 and its balance sheet at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the results of operations and the changes in the financial position of the Corporation for the year ended December 31, 1987 and its financial position at that date in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come under our notice in the course of our examination of the financial statements were, in all material respects, in accordance with the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act*, the Letters Patent and by-laws of the Corporation.

Chartered Accountants

Montréal, Quebec
February 11, 1988

Balance Sheet as at December 31, 1987

(in thousands of dollars)

Assets	1987	1986
Current		
Cash	$ 632	$ 567
Investments (note 3)	36,025	27,280
Accounts receivable	10,596	13,206
Materials and supplies	859	832
	48,112	41,885
Investments (note 3)	39,395	39,218
Fixed assets (note 4)	139,489	130,682
Other	433	459
	$ 227,429	$ 212,244
Liabilities		
Current		
Accounts payable and accrued liabilities (note 5)	$ 11,260	$ 8,590
Dividends payable	—	4,136
Grants in lieu of municipal taxes	5,000	3,315
	16,260	16,041
Long-term		
Accrued employee benefits	5,225	5,283
Loans from Canada (note 6)	6,968	238,508
	12,193	243,791
Equity of Canada		
Contributed capital	183,569	19,243
Contribution to Canada (note 7)	—	(59,119)
Retained earnings (deficit)	15,407	(7,712)
	198,976	(47,588)
	$ 227,429	$ 212,244

On behalf of the Board

Ronald Corey
Chairman

Dominic J. Taddeo
General Manager and
Chief Executive Officer

Statement of Income

(in thousands of dollars)

for the year ended December 31, 1987	1987	1986
Revenue from operations	$ 59,770	$ 56,659
Operating and administrative expenses	38,530	39,690
Depreciation	8,926	7,254
Grants in lieu of municipal taxes	3,954	3,873
	51,410	50,817
Net income from operations	8,360	5,842
Investment income	7,529	8,446
Interest expense	(482)	(503)
	7,047	7,943
Net Income for the year	$ 15,407	$ 13,785

Statement of Contributed Capital

(in thousands of dollars)

for the year ended December 31, 1987	1987	1986
Balance at beginning	$ 19,243	$ 19,243
Forgiveness of loans (note 6)	231,157	—
Contributions to Canada (note 7)	(59,119)	—
Elimination of deficit (note 8)	(7,712)	—
Balance at end	$ 183,569	$ 19,243

Statement of Contributions to Canada

(in thousands of dollars)

for the year ended December 31, 1987	1987	1986
Balance at beginning	$ 59,119	$ —
Special contributions for the year	—	54,983
Dividend on net income for the year	—	4,136
Reclassification to contributed capital (note 7)	(59,119)	—
Balance at end	$ —	$ 59,119

Statement of Retained Earnings (Deficit)

(in thousands of dollars)

for the year ended December 31, 1987

	1987	1986
Balance at beginning	$(7,712)	$(21,497)
Elimination of deficit (note 8)	7,712	—
Net income for the year	15,407	13,785
Balance at end	$ 15,407	$(7,712)

Statement of Changes in Financial Position

(in thousands of dollars)

for the year ended December 31, 1987

	1987	1986
Inflow (Outflow) of cash related to the following activities:		
Operating		
Net income for the year	$ 15,407	$ 13,785
Items not affecting cash		
Depreciation	8,926	7,254
Other	360	871
	24,693	21,910
Changes in non-cash operating working capital balances	2,461	(3,175)
	27,154	18,735
Financing		
Repayment of current portion of loans from Canada	(361)	(339)
Contributions to Canada	—	(54,983)
	(361)	(55,322)
Investing		
Acquisition of long-term investments	(177)	(177)
Receipt of long-term receivables	26	93
Acquisition of fixed assets	(17,832)	(15,374)
	(17,983)	(15,458)
Increase (decrease) in cash	8,810	(52,045)
Cash at beginning	27,847	79,892
Cash at end	$ 36,657	$ 27,847

Cash comprises cash and current investments.

Notes to Financial Statements

for the year ended December 31, 1987

1. Status

The Montréal Port Corporation (the Corporation) was incorporated by letters patent in accordance with paragraph 6.2(1) of the *Canada Ports Corporation Act* on July 1, 1983.

Under Section 6.5 of the same Act, on the establishment of a local port corporation, all rights, obligations and liabilities of the Canada Ports Corporation in relation to that harbour shall become rights, obligations and liabilities of the local port corporation and the administration of all such property and works within the limits of that harbour as are administered by the Board, shall be deemed to have been transferred to the local port corporation, in this case the Montréal Port Corporation.

2. Significant Accounting Policies

a) Fixed Assets and Depreciation

Fixed assets are recorded at original cost with related accumulated depreciation transferred from Canada Ports Corporation; subsequent acquisitions are recorded at cost.

Depreciation on fixed assets is calculated according to the straight-line method for the full year, commencing in the year the asset becomes operational, using rates based on the estimated useful lives of the assets.

b) Pension Costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the plan are required from both the employees and the Corporation. These contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

c) Grants in Lieu of Municipal Taxes
Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

d) Employee Benefits
The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave, sick leave and overtime compensatory leave, which are payable to its employees in subsequent years under collective agreements, or in accordance with Corporation policy.

3. Investments
Funds are invested in Government of Canada direct securities and guaranteed by the Government of Canada which are shown at amortized cost, with premiums or discounts amortized over the periods to maturity. As at December 31, 1987, the market value of the short-term investments is equivalent to their amortized cost, and market value of long-term investments is $42,636,000 ($46,246,000 in 1986).

4. Fixed assets

(in thousands of dollars)

		1987			1986
	Depreciation rates %	Cost	Accumulated depreciation	Net Value	Net Value
Land		$ 19,113	$ —	$ 19,113	$ 19,058
Dredging	2.5	15,825	12,087	3,738	3,823
Berthing structures	2.5	59,231	37,637	21,594	21,962
Buildings	2.5–10	67,734	29,151	38,583	32,827
Utilities	3.3–10	15,270	6,705	8,565	7,526
Roads and surfaces	2.5–10	38,908	12,008	26,900	20,375
Machinery and equipment	5–20	51,609	31,254	20,355	13,527
Office furniture and equipment	20	1,478	1,034	444	567
		269,168	129,876	139,292	119,665
Projects under construction		197	—	197	11,017
		$269,365	$129,876	$139,489	$130,682

5. Accounts Payable and Accrued Liabilities
Included in accounts payable and accrued liabilities are amounts for deferred revenues of $979,612 ($652,589 in 1986) and for the current portion of long-term liabilities of $383,111 ($360,576 in 1986).

6. Loans from Canada

	(in thousands of dollars)	
	1987	**1986**
Loans bearing interest at 6.25% with blended annual principal and interest repayment requirements of $842,561 and maturing in the year 2000	**$ 7,351**	$ 7,712
Less: Current portion	**383**	361
	6,968	7,351
Non-interest bearing loans with indefinite due date	**—**	132,995
Accrued interest on loans not due nor payable	**—**	98,162
	$ 6,968	$238,508

During the year, the non-interest bearing loans with indefinite due date and the related accrued interest in the amount of $231,157,000 were forgiven by Canada. This amount has been credited to Contributed Capital.

Principal repayment requirements over the next five years amount to:

1988	1989	1990	1991	1992
$383,112	$407,056	$432,497	$459,528	$488,249

7. Contributions to Canada

The dividend declared in 1986 and payments from excess cash made to Canada in the same year treated as Contributions to Canada in the amount of $59,119,000, have been reclassified to Contributed Capital.

8. Equity of Canada

During the year, the Minister of Transport has approved the elimination of the deficit as at January 1, 1987, in the amount of $7,712,000, with a corresponding reduction in Contributed Capital.

9. Contingencies

Claims aggregating approximately $6,318,000 in respect of lawsuits, guarantees and damages allegedly suffered on the Corporation property and sundry legal matters in dispute have been made against the Corporation but are not reflected in the accounts. In the opinion of the Corporation, its position is defensible and the final outcome of such claims should not result in any material loss.

10. Commitments

a) Contractual obligations for the completion, construction and purchase of fixed assets are estimated at $1,500,000.

b) In accordance with a decision by the Government of Canada, the Corporation is required to issue a dividend, in respect of the 1987 fiscal year, set at 30% of net income and payable before March 31, 1988. This dividend would amount to $4,622,100 and would be applied against retained earnings.

11. Related Party Transactions

In the ordinary course of business, the Corporation enters into transactions with related parties, including the Government of Canada, its agencies and other Crown corporations.

The Corporation derives revenues from related parties principally from grain warehousing and switching charges. The expenses paid to related parties are principally administration fees.

Board of Directors

Ronald Corey *
Chairman
President Montréal Canadiens Hockey Club Inc.
President Montréal Forum Inc
Montréal Quebec

Bernard J. Finestone *
Vice-Chairman
President Abbey-Finestone Inc
Westmount Quebec

Rosaire Archambault
President
Archambault Musique Inc
Montréal Quebec

Roger Bishop
Member Local 375
International Longshoremen's Association
Brossard Quebec

Raphael Esposito
Esposito Cocciardi St-Onge & Beaulieu
Montréal Quebec

André Gingras *
President
André Gingras et Associés Inc
Westmount Quebec

*Members of the Executive Committee

Officers of the Corporation

Ronald Corey
Chairman

Dominic J. Taddeo
General Manager and Chief Executive Officer

Yvan Simard
Deputy General Manager

Jean-Pierre Desjardins
Director of Planning and Development

Roger Dubé
Director of Finance and Administration

Captain Dea Hassib
Director of Operations

Jean Mongeau
Corporate Secretary

Chris Sampson
Director of Police and Security

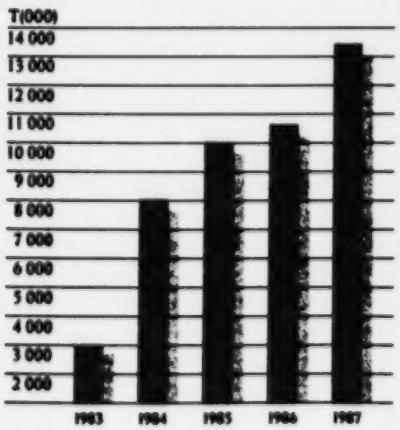
Georges Tchoryk
Director of Human Resources

Frank Vannelli
Director of Marketing

Performance Highlights

Total operating revenues increase by 31% to nearly $15 million for the first time — up to $14.9 million from $11.3 million.
Total foreign tonnage was 13.4 million tonnes from 10.3 million, increase of 26%.
Net income increased 65% to $4.3 million with cash flow up 33% to $5.0 million.
The new grain terminal increased its shipping total to 4.8 million tonnes, up more than 150% over the previous year.
Lumber traffic rose by 34% to 757,000 tonnes or 556 million FBM.

Total Traffic



Prince Rupert Port Corporation

Joint message from the Chairman of the Board and the General Manager and Chief Executive Officer

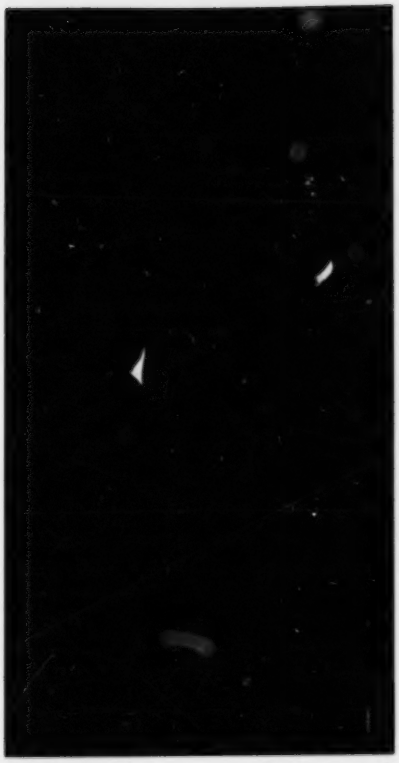
The Prince Rupert Port Corporation is pleased to present the favourable results of the port corporation's activity for 1987.

In 1987, the Port of Prince Rupert set a new record tonnage mark of 13.4 million tonnes — up 26 percent over the 1986 level of 10.7 million tonnes. Vessel traffic within the harbour increased from 1,556 to 1,613. The increase is attributable to improvement in several cargo categories but is primarily due to record throughput levels at the Prince Rupert Grain Terminal on Ridley Island. Grain tonnage at that facility increased by over 150 percent to 4.8 million tonnes. Coal shipments from the facility at Ridley Terminals Inc. were down marginally to 6.4 million tonnes.

The Corporation is particularly pleased to report significantly improved activity at the port owned Fairview general cargo terminal where throughput was up 32 percent to 997,500 tonnes. Leading the way was lumber up 34 percent to 757,234 tonnes (556 million FBM) followed by specialty grains which were up 32 percent to 191,499 tonnes.

The achievement in lumber shipments is particularly satisfying to the port corporation as it makes the sixth consecutive year that a record throughput has been achieved in that category. Lumber traffic has increased from a 1982 level of 174,000 tonnes (123 million FBM) to an excess of 750,000 tonnes (556 million FBM). This increase reflects the expanding offshore markets for lumber producers in the northern part of British Columbia.

Due to the call of an additional vessel, cruise ship passengers at the port increased by 104 percent to 9,118.



Allan T. Sheppard Robert W. Tytaneck

The favourable traffic results have translated directly into new financial records. Revenue from operations set a new high of $14.9 million as compared to $11.3 million in 1986. Net income for 1987 rose to $4.3 million, an increase of 65.4 percent over 1986 levels. The financial results can be attributed solely to improved cargo volume. In recognition of competitive world markets, the port has held the line on tariff schedules for 1987. As the port is poised at the beginning of a period of facility development, the improvement in financial position will significantly enhance the ability of the port to fund those projects from internal sources.

While the port traffic and financial results reflected a favourable year, there were considerable accomplishments at the port in a number of critical areas.

In 1987, the Prince Rupert Port Corporation and the Air Administration of Transport Canada shared equally in the $950,000 construction cost of a ferry ramp at Digby Island. This rock, steel, and concrete structure ensures safe and effective access to the Digby Island Airport which serves Prince Rupert and replaced an aging timber structure. The facility has been leased to the city for a nominal sum.

With the expiration of the terminal operator contract in 1987 at the port's Fairview Terminal, a major effort was made by the Board and the staff in the selection of a terminal operator. The Corporation was pleased to confirm the selection of Canadian Stevedoring Company Limited to a long-term contract.

In view of record volumes of throughput at the Fairview Terminal, the port increased its attention in 1987 to expansion of that facility. Specifically, the port examined in detail the market potential, the engineering aspects of expansion, and financial considerations. These effects culminated in the approval by the Canada Ports Corporation and the federal government of a $37.9 million expansion program which will add another berth to the existing two berths and create a 37 percent increase in open storage area. This expansion will ensure that lumber producers in northern B.C. will continue to have an effective gateway to serve their growing markets.

The continued success of the port has been made possible by the commitment and dedication of the port staff, our customers, and the marine community to whom our appreciation is expressed. Despite the accomplishments of the past, the Corporation is dedicated to future development and traffic diversification as the long-term mechanism for success.

Allan T. Sheppard
Chairman of the Board

Robert W. Tytaneck
General Manager and
Chief Executive Officer

Auditors' Report

The Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Prince Rupert Port Corporation as at December 31, 1987 and the statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act*, and the Letters Patent and By-laws of the Corporation.

Chartered Accountants

Vancouver, British Columbia
January 28, 1988

Balance Sheet as at December 31, 1987

Assets	1987	1986 (restated)
Current assets		
Cash	$ 50,506	$ 63,752
Investments (note 1)	11,847,375	7,879,580
Accounts receivable	950,357	566,284
Due from Canada	–	63,937
Materials and supplies	67,322	79,928
	12,915,560	8,653,481
Property and equipment (note 2)	71,312,750	72,024,049
	$ 84,228,310	$ 80,677,530
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	$ 546,908	$ 527,763
Payable to Canada	2,965	–
Grants in lieu of municipal taxes	368,140	351,711
Deferred revenues	162,216	186,251
	1,080,229	1,065,725
Long-term debt		
Loans from Canada (note 3)	–	38,110,991
Recoverable contribution from Canada (note 4)	48,300,000	48,300,000
	48,300,000	86,410,991
	49,380,229	87,476,716
Equity of Canada (note 5)		
Contributed capital	31,311,805	678,275
Contribution to Canada	–	(1,289,136)
Retained earnings (deficit)	3,536,276	(6,188,325)
	34,848,081	(6,799,186)
	$84,228,310	$80,677,530

Approved by the Board

Allan T. Sheppard
Chairman

Robert W. Tytaneck
General Manager and
Chief Executive Officer

Statement of Income and Retained Earnings

for the year ended December 31, 1987	1987	1986 (restated)
Revenue from operations	$ 14,852,377	$ 11,314,851
Expenses		
Operating and administrative	9,776,591	7,845,088
Depreciation (note 2)	1,136,992	1,244,666
Grants in lieu of municipal taxes	405,538	335,353
	11,319,121	9,425,107
Income from operations	3,533,256	1,889,744
Other income		
Interest income	781,979	591,603
Gain on disposal of property and equipment	–	115,182
	781,979	706,785
Net Income	4,315,235	2,596,529
Deficit at beginning of year		
As previously stated	(5,838,325)	(8,434,854)
Settlement of litigation (note 7)	(350,000)	(350,000)
As restated	(6,188,325)	(8,784,854)
	(1,873,090)	(6,188,325)
Deficit reduction (note 5)	6,188,325	–
	4,315,235	(6,188,325)
Dividend to Canada	778,959	–
Retained Earnings (Deficit) at end of year	$ 3,536,276	$ (6,188,325)

Statement of Changes in Financial Position

for the year ended December 31, 1987	1987	1986
Cash Provided by (used for):		
Operations		
Net income	$ 4,315,235	$ 2,596,529
Items not involving cash		
Depreciation	1,136,992	1,244,666
Gain on sale of property and equipment	–	(115,182)
	5,452,227	3,726,013
Changes in non-cash operating working capital		
Accounts receivable	(384,073)	63,915
Materials and supplies	12,606	8,164
Accounts payable and accrued liabilities	19,145	(204,583)
Grants in lieu of municipal taxes	16,429	(144,110)
Deferred revenues	(24,035)	(43,012)
	5,092,299	3,406,387
Financing		
Increase (decrease) in payable to Canada	2,965	(249,190)
Contribution to Canada	–	(1,289,136)
Increase in receivable from Canada	–	(63,937)
Recoverable contribution from Canada	–	(1,211,864)
Forgiveness of loans from Canada	(38,110,991)	–
Increase in contributed capital	38,110,991	–
Dividend to Canada	(778,959)	–
	(775,994)	(2,814,127)
Investments		
Proceeds from sale of property and equipment	–	119,300
Purchase of property and equipment (net of capital grants)	(425,693)	(57,878)
Decrease in receivable from Canada	63,937	–
	(361,756)	61,422
Increase in Cash Position	3,954,549	653,682
Cash position at beginning of year	7,943,332	7,289,650
Cash Position at end of year	$11,897,881	$ 7,943,332

Cash position is defined to include cash plus investments.

Notes to Financial Statements
Year Ended December 31, 1987

Local Port Corporation
The Prince Rupert Port Corporation ("the Corporation") was established effective June 1, 1984 as a local port corporation pursuant to the *Canada Ports Corporation Act* ("the Act"). The Corporation is exempt from income taxes.

On June 1, 1984, pursuant to the Act, all the assets and liabilities of Canada Ports Corporation relating to the Port of Prince Rupert were transferred to the Corporation at their book value as recorded by Canada Ports Corporation. The net liabilities assumed were recorded as contributed capital of $678,275 and a deficit of $11,673,894. Accordingly, the financial statements are prepared as though the Prince Rupert Port Corporation had operated these facilities since their inception.

Summary of Significant Accounting Policies
a) Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

b) Property and equipment
Property and equipment are recorded at cost. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related property and equipment.

Depreciation is calculated on the straight-line basis using rates based on the estimated useful lives of the assets.

c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

e) Employee benefits
The Corporation accrues in its accounts annually the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years.

1. Investments

	1987	1986
Amortized cost	$11,847,375	$7,879,580
Market value	$11,839,614	$7,855,119

2. Property and Equipment

a) Summary

	Depreciation rates %	1987 Cost	1987 Accumulated depreciation	1987 Net	1986 Net
Land	–	$60,126,625	–	$60,126,625	$60,126,625
Dredging	2.5 – 6.7	5,177	$ 1,294	3,883	4,012
Berthing structures	2.5 – 10	8,693,098	2,779,026	5,914,072	6,156,854
Buildings	2.5 – 10	2,351,657	397,441	1,954,216	2,017,447
Utilities	3.3 – 10	2,597,237	1,187,689	1,409,548	1,517,320
Roads and surfaces	2.5 – 10	3,512,385	1,898,543	1,613,842	1,872,126
Machinery and equipment	5 – 10	1,697,882	1,445,429	252,453	270,585
Office furniture and equipment	20	153,583	115,472	38,111	59,080
		$79,137,644	$7,824,894	$71,312,750	$72,024,049

b) Depreciation

Depreciation consists of:

	1987	1986
Depreciation expense	$ 714,841	$ 926,760
Write-down of equipment	422,151	317,906
	$1,136,992	$1,244,666

3. Loans from Canada

	1987	1986
Non-interest bearing loans with indefinite due date	–	$ 27,084,979
Accrued interest on loans not due and payable	–	11,026,012
	–	$38,110,991

During the year, the non-interest bearing loans and the related accrued interest in the amount of $38,110,991 were forgiven by Canada. This amount has been credited to contributed capital. See note 5.

4. Recoverable Contribution from Canada

A recoverable contribution of $50,400,000 was approved for the construction of the infrastructure for the coal terminal facility on Ridley Island. The recoverable contribution as at December 31, 1987 was $48,300,000.

The total recoverable contribution is interest-free until April 1, 1989, and thereafter bears interest at approximately 13.9%.

Principal and interest on $48,300,000 of the contribution are repayable over 20 years, commencing on April 1, 1989, contingent upon the revenues received from a direct coal throughput surcharge.

5. Contributed Capital and Contribution to Canada

	Contributed capital	Contribution to Canada
Balance at beginning of year	$ 678,275	$(1,289,136)
Contribution to Canada	(1,289,136)	1,289,136
Forgiveness of non-interest bearing loans and related accrued interest	38,110,991	–
Deficit reduction	(6,188,325)	–
Balance at end of year	$31,311,805	

Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $1,289,136 have been reclassified to Contributed Capital.

During the year, the Minister of Transport has approved a reduction of the deficit as at January 1, 1987, in the amount of $6,188,325 with a corresponding reduction in Contributed Capital.

6. Related Party Transactions

a) During the year, the Corporation received revenue of $1,112,764 (1986, $1,169,454) from Ridley Terminals Inc., a company in which Canada Ports Corporation has a significant investment. At December 31, 1987, the Corporation was owed $100,290 by Ridley Terminals Inc. (1986, $7,169).

b) During the year the Corporation paid $434,784 (1986, $436,093) to Canada Ports Corporation as its share of that corporation's head office expense.

7. Prior Period Adjustment

During the year, the Corporation settled a lawsuit for $350,000 relating to a dispute over the settling of the Ridley Island rail embankment which was outstanding prior to January 1, 1986. Since the suit arose in a prior period, it was accounted for as a reduction of the opening balance of retained earnings and an increase in the accounts payable for that period.

Board of Directors

Allan T. Sheppard *
Chairman
Owner/Manager
Port Edward Marine Services
Prince Rupert, B.C.

Dolores D. MacIntosh *
Vice-Chairman
Property Manager
Prince Rupert, B.C.

John T. Payne */**
General Manager
Universal Stores Inc.
Prince Rupert, B.C.

John D. McNish **
Manager
Credit Bureau of Prince Rupert
Prince Rupert, B.C.

William B. Hick
Physician (Retired)
Prince Rupert, B.C.

Donald Seidel
Manager
Prince Rupert Motors Ltd.
Prince Rupert, B.C.

Ronald A. Ciccone
Agent
Mutual Like of Canada
Prince Rupert, B.C.

* Executive Committee
** Audit Committee

Officers of the Corporation

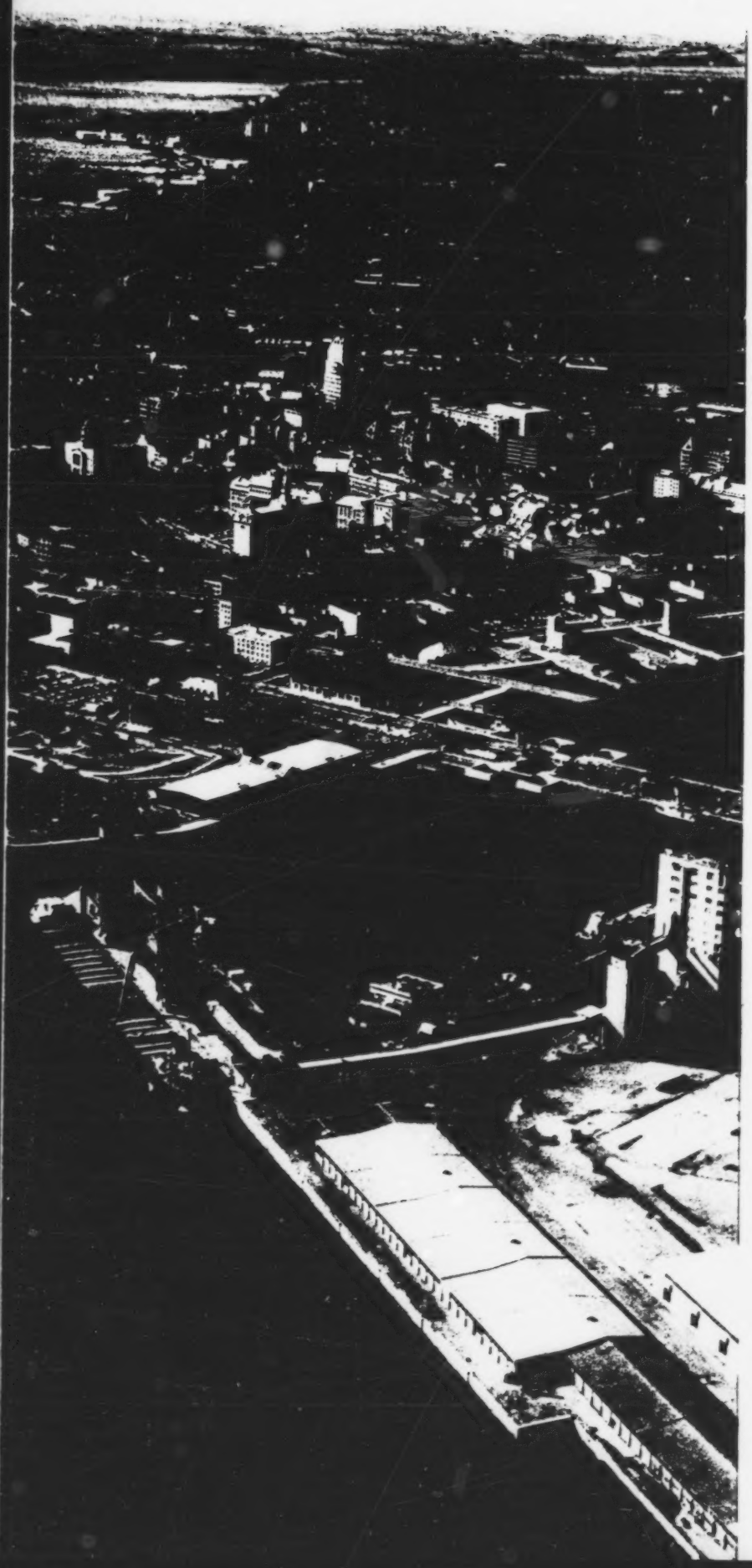
Allan T. Sheppard
Chairman

Robert W. Tytaneck
General Manager and Chief Executive Officer

Don H. Krusel
Manager, Finance and Administration

Joseph A. Stranan
Manager, Marketing and Planning

Captain Michael Gray
Manager, Operations/Harbour Master



Performance Highlights

A record 18.3 million tonnes of cargo handled in 1987.

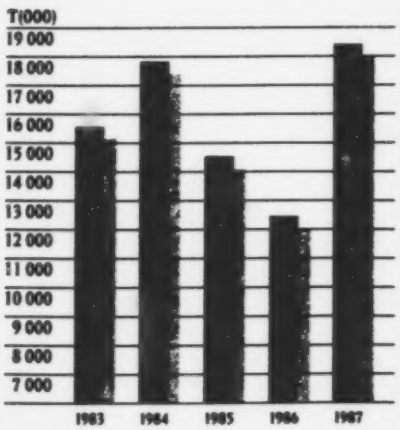
The South-Korean bulk carrier *Daeyang Honey* established a record draft of 15.65 metres.

The Polish tanker *Zawrat* delivered 140,000 tonnes of crude oil to the Ultramar refinery, the largest single cargo in the history of the port.

Construction began on a new $5 million phosphorus terminal.

Gagnon and Boucher invested $1 million to increase storage capacity at its Anse au Foulon feed grain distribution terminal.

Total Traffic



Port of Québec Corporation

Joint message from the Chairman of the Board and the General Manager and Chief Executive Officer

The Port of Québec's excellent commercial and financial performance in 1987 points to a promising future for the port corporation and entire maritime-related business community as they work together to provide competitive transportation services.

A natural transhipment centre between ocean and river navigation, the Port of Québec is well located to serve North America's industrial and agricultural heartland via the Great Lakes. Clients and users also capitalize on the port's 15 metres of water at low tide, intermodal transportation, including direct links to the CN and CP rail systems and year-round navigation.

While these transportation advantages are of key importance, close cooperation between the public and private sector has given Québec an edge in the face of intense competition prevailing within the port industry.

Record tonnage in 1987

The Port of Québec had its best year ever in 1987, as most sectors of activity were on the rise establishing a new record for overall tonnage.

Year-end statistics indicate that 18.3 million tonnes of cargo were handled at the port in 1987, surpassing the previous record of 18.1 million tonnes in 1981.

The 1987 figures also show a 46 percent increase over the 12.5 million tonnes of cargo handled in 1986, when a lock-out declared September 16th closed the port for the last quarter of the year. Following the settlement of the difficult labour dispute in February 1987, the port community vigorously rebounded as maritime employers and longshoremen worked together to attain a common goal and provide quality service to shippers.

The port's vocation as a bulk transhipment centre was once again highlighted in 1987.

Guy Boulanger, f.c.a. Ross Gaudreault

Shipments of all major bulk commodities were on the rise including grain (6.3 million tonnes in 1987 compared to 3.1 million tonnes in 1986) and minerals (3.2 million tonnes, up from 1.5 million).

Two other records were broken at the Port of Québec in 1987. When the South Korean ore carrier *Daeyang Honey* called, it established a record 15.65 metre draft, while the Polish tanker *Zawrat* unloaded 140,000 tonnes of crude oil, the largest single shipment in the history of the port.

The volume of petroleum products, handled largely at the pier serving the Ultramar refinery at St. Romuald, a suburb of Québec City, increased in 1987 to 7.8 million tonnes, compared to 7 million in 1986.

Also in the category of liquid bulk cargos, Intertank Inc. began construction on a new $5 million phosphorus terminal at its tank farm located at the port's Beauport sector. When completed in mid 1988, the facility will handle approximately 20,000 tonnes of phosphorus per year.

The shipment of 3.7 million pounds of butter to Morocco by the Canadian Dairy Commission, a first at the Port of Québec, was a reminder that general cargo is an important aspect of port activity. Exports of newsprint, lumber and dairy products have a considerable economic impact.

The Port of Québec also welcomed 100 calls by cruise ships in 1987, which brought a record 33,500 passengers to the city, compared to 18,500 passengers in 1986.

Financial highlights

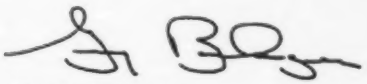
A brief summary of financial results for 1987 shows overall revenues of $12.4 million and a net income of $2.2 millions.

Traffic outlook

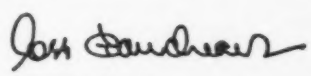
According to a study published by Ocean Shipping Consultants of London, more than eighty percent of bulk cargos such as iron ore, coal and grain are carried by vessels in the 100,000 dwt range. With its deep water berths, Québec is obviously well-positioned to capitalize on the growing use of deep draft ships in maritime trade.

The outlook for future development at the Port of Québec is promising. We will continue to pursue a strategy based on capacity to receive deep-draft vessels, increased handling speed and joint investment and marketing programs with private enterprise.

We are confident that maritime trade at Québec City will continue to grow through the dynamic marketing of the port's deep water and intermodal advantages and ongoing cooperation between the port administration and its partners in the private sector.



Guy Boulanger, f.c.a.
Chairman of the Board



Ross Gaudreault
General Manager and
Chief Executive Officer

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Port of Québec Corporation as at December 31, 1987 and the statements of income, contributed capital, surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Port as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We further report that, in our opinion, the transactions of the Corporation that have come to our notice in the course of our examination of the financial statements have been in all significant respects in accordance with the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Chartered Accountants

Québec, Quebec
February 3, 1988

Balance Sheet as at December 31, 1987

Assets	1987	1986
Current assets		
Cash	$ 65,877	$ 297,030
Investments (note 1)	14,350,583	12,160,125
Accounts receivable	3,317,994	1,760,930
Materials and supplies	75,831	68,781
	17,810,285	14,286,866
Investments (note 1)	6,650,201	6,623,856
Property, Plant and equipment (note 2)	43,466,432	44,951,490
	$67,926,918	$65,862,212
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,079,649	$ 2,050,841
Grants in lieu of municipal taxes	344,000	654,808
Deferred revenues	788,842	659,865
	3,212,491	3,365,514
Long term		
Accrued employee benefits	768,478	737,500
Equity of Canada (note 4)		
Contributed capital	61,759,198	107,251,631
Contribution to Canada (note 3)	–	(21,735,000)
Surplus (deficit)	2,186,751	(23,757,433)
	63,945,949	61,759,198
	$67,926,918	$65,862,212

On behalf of the Board

Guy Boulanger, f.c.a.
Chairman

Ross Gaudreault
General Manager and
Chief Executive Officer

Statement of Income

for the year ended December 31, 1987	1987	1986
Revenue from operations	$ 10,634,983	$ 7,962,545
Expenses		
Operating and administrative expenses	7,482,804	7,429,521
Depreciation	1,941,183	1,912,453
Grants in lieu of municipal taxes	806,713	1,024,639
	10,230,700	10,366,613
Income (loss) from operations	404,283	(2,404,068)
Investment income	1,786,580	2,417,773
Net income	$ 2,190,863	$ 13,705

Statement of Contributed Capital

for the year ended December 31, 1987	1987	1986
Balance at beginning of year	$ 107,251,631	$ 107,251,631
Contribution to Canada (note 3)	(21,735,000)	–
Reduction of deficit (note 4)	(23,757,433)	–
Balance at end of year	$ 61,759,198	$107,251,631

Statement of Surplus

for the year ended December 31, 1987	1987	1986
Deficit at beginning of year	$(23,757,433)	$(23,771,138)
Reduction of deficit (note 4)	23,757,433	–
Net income	2,190,863	13,705
Dividend to Canada	(4,112)	–
Surplus (deficit) at end of year	$ 2,186,751	$(23,757,433)

Statement of Changes in Financial Position

for the year ended December 31, 1987	1987	1986
Cash provided by (used for)		
Operations		
Net income	$ 2,190,863	$ 13,705
Items not affecting cash		
Amortization of discount on Canada Government bonds	(26,345)	(26,345)
Depreciation	1,941,183	1,912,453
Loss (gain) on disposal of property, plant and equipment	30,394	(105,184)
Accrued employee benefits	30,978	(53,500)
Changes in non-cash operating working capital (note 5)	(1,717,137)	1,132,387
	2,449,936	2,873,516
Investment		
Additions to property, plant and equipment	(509,124)	(2,178,038)
Proceeds on disposal of property, plant and equipment	22,605	112,261
	(486,519)	(2,065,777)
Financing		
Contributed capital	(45,492,433)	–
Contribution to Canada	21,735,000	(21,735,000)
Reduction of deficit	23,757,433	–
Dividend to Canada	(4,112)	–
	(4,112)	(21,735,000)
Increase (decrease) in cash position	1,959,305	(20,927,261)
Cash position at beginning of year	12,457,155	33,384,416
Cash position at end of year	$ 14,416,460	$ 12,457,155
Cash position is represented by:		
Cash	$ 65,877	$ 297,030
Investments	14,350,583	12,160,125
	$ 14,416,460	$ 12,457,155

Notes to Financial Statements
December 31, 1987

General
The Port of Québec Corporation was incorporated on June 1, 1984, under article 6.2(1) of the *Canada Ports Corporation Act*

Summary of Significant Accounting Policies
a) Investments
Investments are direct securities guaranteed by Canada. They are presented at amortized cost and the premium or discount is amortized over the periods to maturity.

b) Property, plant and equipment
Property, plant and equipment are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants received from Canada and from third parties for capital projects are deducted from the cost of the related property, plant and equipment.

Depreciation is calculated using the straight line method, for an entire year, once the asset becomes operational using the following annual rates:

Dredging	2.5% – 6.7%
Berthing structures	2.5% – 10%
Buildings	2.5% – 10%
Utilities	3.3% – 10%
Roads and surfaces	2.5% – 10%
Machinery and equipment	5% – 20%
Office furniture and equipment	20%

c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

d) Insurance
The Port of Québec Corporation assumes all risks with respect to compensation claims for occupational injury. Any costs arising from these claims are recorded in the accounts in the year they can be reasonably estimated.

e) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

f) Employee benefits
Every year the Corporation accounts for estimated liabilities relating to severance pay, annual leave, sick leave and overtime compensatory leave; these benefits are payable to its employees in subsequent years under its collective agreements or in accordance with its policy.

1. Investments

Investments, which are direct securities guaranteed by Canada, are as follows:

	1987		1986	
	Cost	Market Value	Cost	Market Value
Current	$14,350,583	$14,360,850	$12,160,125	$12,166,576
Long term	$ 6,650,201	$ 7,225,330	$ 6,623,856	$ 7,860,139

2. Property, Plant and Equipment

	1987			1986
	Cost	Accumulated depreciation	Net	Net
Land	$11,043,597	$ –	$11,043,597	$11,043,597
Dredging	4,561,341	3,923,247	638,094	666,155
Berthing structures	22,636,930	16,272,807	6,364,123	6,769,020
Buildings	33,361,182	13,415,999	19,945,183	20,764,089
Utilities	3,478,625	1,996,636	1,481,989	1,551,345
Roads and surfaces	5,866,792	3,194,719	2,672,073	3,014,971
Machinery and equipment	475,430	349,730	125,700	114,907
Office furniture and equipment	500,058	278,342	221,716	210,489
Projects under construction	973,957	–	973,957	816,917
	$82,897,912	$39,431,480	$43,466,432	$44,951,490

As at December 31, 1987, contractual obligations for the completion, construction and purchase of fixed assets are estimated at $40,000, most of which will be expended in the year ending December 31, 1988.

3. Contribution to Canada

The cash contribution of $21,735,000 paid to the Government of Canada in 1986 and presented as a contribution to Canada has been applied against the contributed capital amount in 1987.

4. Equity of Canada

In 1987, the Minister of Transport approved the elimination of the accumulated deficit to January 1, 1987 totaling $23,757,433, by reducing the contributed capital by the same amount.

5. Changes in non-cash operating working capital

	1987	1986
Accounts receivable	$(1,557,064)	$1,495,091
Materials and supplies	(7,050)	(8,408)
Accounts payable and accrued liabilities	28,808	(435,901)
Grants in lieu of municipal taxes	(310,808)	152,808
Deferred revenues	128,977	(71,203)
	$(1,717,137)	$1,132,387

6. Related Party Transactions

During the year, the Corporation entered into transactions with related entities comprising various ministry, government organizations and Crown corporations.

Principally, the Corporation earned rental revenues from related entities totaling $1.2 million. Expenses paid to related parties mainly consist in management fees.

7. Contingencies

Claims aggregating approximately $1,400,000 have been received by the Corporation in respect of lawsuits, warranties, collective agreements, damages allegedly suffered on the Corporation's property and various other matters in dispute. In the Corporation's view, its position is defensible and these claims should not result in any material losses.

In addition, claims for an estimated amount at $2,000,000 have been received by the Corporation concerning the ownership of certain lands. Any amount payable in connection with those claims will be capitalized to the cost of land.

These amounts are not recorded in the financial statements.

8. Subsequent Event

On December 23, 1987 a resolution from the Treasury Board approved to transfer, at no cost, the administration, management and control of certain lands currently managed by Société immobilière du Canada (Vieux-Port de Québec) Inc. The transfer of the assets and operations is effective January 1, 1988.

Board of Directors

Guy Boulanger, f.c.a. *
Chairman
Vice President
Mallette Benoit Boulanger Rondeau & Ass.
Sainte-Foy, Que.

The Honourable Jean Marchand *
Vice-Chairman
Québec, Que.

Denise Rancourt-Bélanger
Lawyer
Lévis, Que.

Yvon Dolbec
President
Dolbec Y. Logistique International Inc.
Sainte-Foy, Que.

Claude Gagné
Sales Representative
Toshiba of Canada Ltd.
Vanier, Que.

Raymond Stuart McBain *
President
Ver-Mac Inc.
Sainte-Foy, Que.

Roméo Savard
Foreman
International Longshoremen's Association
Québec, Que.

* Members of the Executive Committee

Officers of the Corporation

Guy Boulanger, f.c.a.
Chairman

Ross Gaudreault
General Manager and Chief Executive Officer

Louis-Philippe Cormier
Director, Administration

Mario Bernard
Director, Finance

Yvon Bureau
Director, Real Estate

Marc Dulude
Director, Marketing

Serge Tremblay
Director, Operations

Jacques Brault
Director, Police and Security

Dave Johanson
Director, Promotion

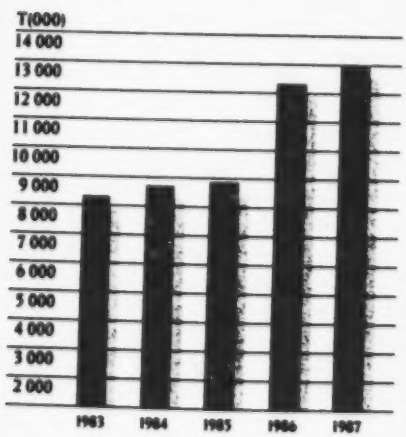
Yvon Lambert
Director, Human Resources

Cary Q. Ouellet
Corporate Secretary

Performance Highlights

Overall tonnage increases by 5% to 13 million tonnes.
Potash shipments up 25% to 1.3 million tonnes.
Major marketing study provides new strategic direction.
Tariff incentives introduced for containerized traffic.

Total Traffic



Saint John Port Corporation

Joint message from the Chairman of the Board and the General Manager and Chief Executive Officer

For the Saint John Port Corporation, 1987 was a year marked with a number of important changes. The local port corporation completed its first full year with greatly increased autonomy for the operation and management of the port. New strategic direction was established and steps taken in 1987 to provide the basis for seizing new opportunities in the future.

Overall tonnage increased to 13 million tonnes which represents an increase of 6 percent over 1986. Petroleum shipments rose by over 900,000 tonnes to a total volume of 10 million tonnes. Significant increases were experienced in the shipment of potash through the Barrack Point Potash Terminal with tonnage growing by 25 percent to 1.2 million tonnes. Forest products shipments including commodities such as pulp, newsprint and lumber declined by 7 percent to 695,000 tonnes. Shipments of sugar through the Lantic Sugar Refinery showed a moderate increase to 275,000 tonnes. With the cessation of direct calls by the Japanese Shipping Lines, containerized traffic fell dramatically to 211,000 tonnes which represents a decline of 60 percent in this important traffic sector. Declines were also recorded in the shipment of grain through the elevator to a level of 215,000 tonnes. Also, salt shipments declined by approximately 15 percent.

A number of significant events highlight the changes that occurred in 1987. A major marketing study was completed which sets important new strategic direction for the port and provides guidance for the implementation of a new marketing program.

The Corporation demonstrated its interest in developing closer working relationships with shippers and producers throughout New Brunswick by holding a Board of Directors meeting in Caraquet, New Brunswick. An open forum for shippers was also held at the same time in the Acadian Peninsula and follow-up meetings were arranged with the shippers.

Harry P. Gaunce Kenneth R. Krauter

Changes were made to improve the operating efficiency of the Corporation. The size of the organization was reduced to achieve a leaner and more efficient operation. An incentive plan for containerized shipping lines was introduced and other tariff improvements made which resulted in the elimination and simplification of a number of tariffs.

In 1988, the Corporation will be working towards improving the utilization and profitability of port facilities as well as implementing a customer-oriented marketing strategy to increase port traffic. Key target areas to improve the utilization of port facilities will include greater emphasis on land use planning and the marketing and promotion of port properties.

A new marketing program will focus on existing and potential ocean carriers and shippers and the development of integrated transportation packages that meet customer needs by shipping through the Port of Saint John. This focussed marketing strategy will include increased market research and analysis, development of a new marketing team, and preparation of improved marketing tools, and direct sales calls and trade missions.

A restructuring of the Corporation's long-term debt in late 1986 resulted in a decline in interest expense, which continues to be a major cost element to the Corporation. Every effort will be made to effect further reductions in interest expenses.

The financial performance of the Corporation reflects the decline in container traffic along with the costs of re-organization. The Corporation is now poised to experience improved financial results, and confident that efforts to improve efficiency in conjunction with new marketing strategies will bring about renewed prosperity for the Port of Saint John.

On behalf of the Board of Directors, we would like to express our sincere appreciation and gratitude to the management and staff of the Corporation for their dedicated efforts in 1987. Our thanks are also extended to our customers and all members of the port community.

Harry P. Gaunce
Chairman of the Board

K. R. Krauter

Kenneth R. Krauter
General Manager and
Chief Executive Officer

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the Saint John Port Corporation as at December 31, 1987, and the statements of loss, deficit, contributed capital and cash flows for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

The financial statements for the preceding year were examined by other Chartered Accountants.

Chartered Accountants

Saint John, New Brunswick
February 12, 1988.

Balance Sheet as at December 31, 1987

(in thousands of dollars)

Assets	1987	1986
Current		
Cash	$ 260	$ 88
Investments (note 3)	6,253	4,845
Accounts receivable	1,208	2,070
Materials and supplies	93	129
	7,814	7,132
Long-term investments (note 3)	952	949
Fixed assets (note 4)	82,734	84,368
	$91,500	$ 92,449
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued charges	$ 3,044	$ 1,567
Deferred revenues	273	217
Grants in lieu of municipal taxes		549
	3,317	2,333
Accrued employee benefits	425	483
Financing provided by a province (note 5)	19,696	19,696
Loans from Canada (note 6)	20,052	68,356
	43,490	90,868
Equity of Canada		
Contributed capital (note 7)	49,372	79,209
Contribution to Canada		(1,033)
Deficit	(1,362)	(76,595)
	48,010	1,581
	$91,500	$ 92,449

(See accompanying notes)

On behalf of the Board

Harry P. Gaunce
Chairman

Kenneth R. Krauter
General Manager and
Chief Executive Officer

Statement of Loss
for the year ended December 31, 1987

(in thousands of dollars) (note 8)

	1987	1986
Revenues		
Harbour services	$ 4,056	$ 5,052
Rentals	4,912	5,080
Shipping services and other	1,181	1,430
	10,149	11,562
Expenses		
Salaries and employees' benefits	3,834	3,534
Purchased services	593	990
Energy and utilities	345	322
Operating and administrative	2,543	2,189
Grants in lieu of municipal taxes	54	801
Depreciation	2,659	2,606
Loss (gain) on disposal of fixed assets	(228)	63
	9,800	10,505
Income from operations	349	1,057
Investment income	702	1,268
Interest expense	(2,413)	(3,313)
	(1,711)	(2,045)
Net loss for the year	$ (1,362)	$ (988)

Statement of Contributed Capital
for the year ended December 31, 1987

(in thousands of dollars) (note 8)

	1987	1986
Balance, beginning of year	$ 79,209	$74,838
Add: Forgiveness of non-interest bearing loans (note 7)	47,791	4,371
	127,000	79,209
Less: Contribution to Canada (note 7)	1,033	
Deficit reduction (note 7)	76,595	
Balance, end of year	$ 49,372	$79,209

Statement of Deficit
for the year ended December 31, 1987

(in thousands of dollars) (note 8)

	1987	1986
Balance, beginning of year as previously reported	$76,595	$75,607
Deficit reduction (note 7)	76,595	
Balance, as restated	Nil	75,607
Net loss for the year	1,362	988
Balance, end of year	$ 1,362	$76,595

Statement of Cash Flows

for the year ended December 31, 1987

(in thousands of dollars)

	1987	(note 8) 1986
Cash, provided by (used in):		
Operations:		
Net loss for the year	$ (1,362)	$ (988)
Add items not requiring a cash payment:		
Depreciation	2,658	2,606
Other	(275)	115
	1,021	1,733
Net change in non-cash working capital balances related to operations (note 9)	1,882	(575)
Cash provided by operations	2,903	1,158
Financing:		
Repayment of loans from Canada	(512)	(7,100)
Contribution to Canada		(1,033)
	(512)	(8,133)
Investing:		
Additions to fixed assets	(1,039)	(478)
Proceeds on disposal of fixed assets	228	2
	(811)	(476)
Increase (decrease) in cash and short-term investments during current year's activities	1,580	(7,451)
Cash and short-term investments, beginning of year	4,933	12,384
Cash and short-term investments, end of year	$ 6,513	$ 4,933

Notes to Financial Statements

December 31, 1987

1. Canada Ports Corporation Act and Incorporation

In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of Saint John was approved and the Saint John Port Corporation was established effective at the closing of business on December 31, 1986 and commenced operations January 1, 1987.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred to the Saint John Port Corporation at their carrying values in the accounts of the Canada Ports Corporation — Port of Saint John.

2. Significant accounting policies

a) Investments

The investments are shown at amortized cost whereby premiums or discounts from par value are amortized over the periods to maturity.

b) Fixed assets

Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates as follows:

Asset	Depreciation Rates %
Dredging	2.5 – 6.7
Berthing structures	2.5 – 10.0
Buildings	2.5 – 10.0
Utilities	3.3 – 10.0
Roads and surfaces	2.5 – 10.0
Machinery and equipment	5.0 – 100.0
Office furniture and equipment	20.00

c) Pension costs

All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions represent the liability of the Corporation for pensions and are recognized in the accounts on a current basis.

d) Insurance

The Corporation assumes substantially all risks against fire and general perils, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the year they can be reasonably estimated.

e) Grants in lieu of municipal taxes

The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

f) Employee benefits

The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay and annual leave which are payable to its employees in subsequent years under its collective agreements, or in accordance with its policy.

3. Investments

Investments are direct and guaranteed securities of Canada as follows:

(in thousands of dollars)

	1987		1986	
	Amortized Cost	Face Value	Amortized Cost	Face Value
Canada Treasury Bills	$6,253	$6,479	$4,845	$4,849
Canada Bonds	$ 952	$1,000	$ 949	$1,159

4. Fixed assets

Fixed assets consist of the following:

(in thousands of dollars)

	1987			1986
	Cost	Accumulated depreciation	Net Book Value	Net Book Value
Land	$ 30,063		$30,063	$30,063
Dredging	1,967	$ 1,460	507	525
Berthing structures	63,655	26,336	37,319	37,988
Buildings	15,570	7,629	7,941	8,366
Utilities	7,651	3,077	4,574	4,899
Roads and surfaces	4,779	3,843	936	1,195
Machinery and equipment	1,897	1,616	281	337
Office furniture and equipment	775	515	260	315
Work under construction	853		853	680
	$127,210	$44,476	$82,734	$84,368

5. Financing provided by a province

The Province of New Brunswick advanced $25,000,000 to partially finance the construction of Rodney Terminal, Saint John. The Province will receive annual principal payments equal to approximately 47% of the net operating income of the terminal until the non-interest bearing advance is repaid. The cost of major repairs has been included in calculating the net operating income of the terminal and the current portion payable as at December 31, 1987 has been calculated accordingly. The Province is disputing this accounting treatment. Had net operating income not been reduced by the cost of these major repairs, the current portion payable would increase by an estimated $777,000.

6. Loans from Canada

	(in thousands of dollars)	
	1987	1986
Term loans bearing interest at 11.0% to 12.43% maturing between December 31, 1998 and 2005	**$20,052**	$20,565
Non-interest bearing loans with indefinite due date		37,768
Accrued interest on loans not due and payable		10,023
	$20,052	$68,356

7. Contributed Capital

During the year, the non-interest bearing loans in the amount of $47,791,000 were forgiven by Canada. This amount has been credited to contributed capital.

Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $1,033,000, have been reclassified to contributed capital.

The Minister of Transport has approved a reduction of the deficit as at January 1, 1987 in the amount of $76,595,000 with a corresponding reduction in contributed capital.

8. Comparative figures

The comparative figures for the year ended December 31, 1986 shown on the statements of Loss, Contributed Capital, Deficit and Cash Flows are those of Canada Ports Corporation — Port of Saint John. The comparative figures have been reclassified to conform to the financial statement presentation adopted for 1987.

9. Net change in non-cash working capital balances related to operations

This consists of the following: (in thousands of dollars)

	1987	1986
Decrease (increase) in current assets:		
Accounts receivable	$ 862	$(213)
Materials and supplies	36	(3)
	898	(216)
Increase (decrease) in current liabilities:		
Accounts payable and accrued charges	1,477	(288)
Deferred revenues	56	(371)
Grants in lieu of municipal taxes	(549)	300
	984	(359)
	$1,882	$(575)

10. Related party transactions

During the year the Corporation paid $652,000 (1986 – $654,000) to Canada Ports Corporation as its share of that Corporation's head office expense.

Board of Directors

Harry P. Gaunce
Chairman
President
Armstrong & Bruce Insurance Limited
Saint John, N.B.

Henry Meinhardt
Vice-Chairman
President
Fundy Ventilation Limited
Saint John, N.B.

Fernand H. Lanteigne
Owner/General Manager
Les Chantiers Nord-Est Ltée
Société du câble de la Péninsule
Caraquet, N.B.

Edgar R. Cohen
Owner
Hoffman's Limited
Saint John, N.B.

David R. MacPherson
President and Business Manager
IBEW, Local 502
Saint John, N.B.

Joseph V. Streeter
Investment dealer
Dominion Securities Inc.
Saint John, N.B.

Shirley A. McAlary
Agent
Air Canada
Saint John, N.B.

Officers of the Corporation

Harry P. Gaunce
Chairman

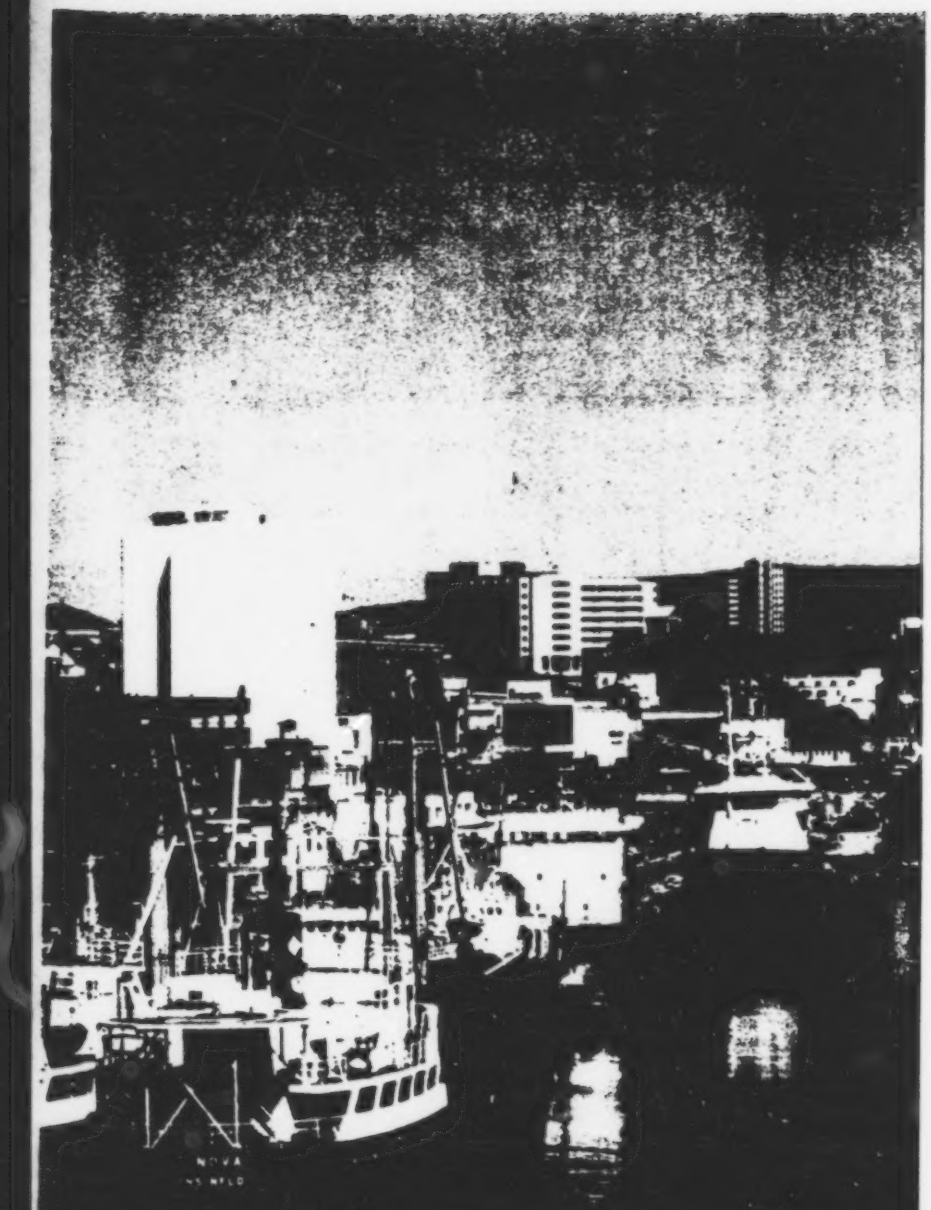
Kenneth R. Krauter
General Manager and Chief Executive Officer

R. Adam McBride
Director of Finance and Administration

Garnet A. Phinney
Director of Engineering and Maintenance

Captain Cy E. Pringle
Director of Operations and Harbour Master

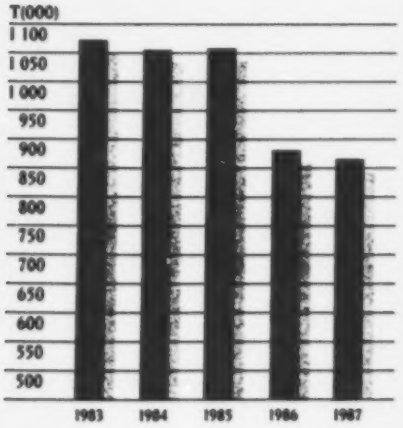
Ardith L. Bartlett
Corporate Secretary



Performance Highlights

1,027 vessels with total gross registered tonnage of approximately 2.9 million tonnes, called at the port in 1987.
469,728 tonnes of cargo were handled at SJPC facilities, an 8% increase over 1986 figures.
Containerized cargo at SJPC facilities was 309,004 tonnes, a total of 63,556 TEUs, a tonnage increase of 23% over 1986.
Site Development and Resurfacing of the Main Terminal was substantially completed at approximately $4.9 million.

Total Traffic



St. John's Port Corporation

Joint message from the Chairman of the Board and the Port Manager and Chief Executive Officer

The decline in vessel activity at the Port of St. John's reported for the year 1986 continued into 1987, as a direct result of reduced offshore oil exploration and the continued closure of Canadian ports to foreign fishing vessels.

The decline in these areas was offset by an increase in general cargo volume handled at the main container, ro-ro and general cargo terminal. As a result of this increase, operating revenues improved by $44,000 over 1986. Although the ...crease is minimal, just under 2 percent, we are pleased with this trend and optimistic that it will continue through 1988. Our optimism is shared by the two shipping companies operating at the Main Terminal. Atlantic Searoute Ltd. (ASL) operating from Halifax to Newfoundland recently introduced a new vessel to this service, increasing the capacity three times. Atlantic Container Express (ACE) operating from Montréal will double its capacity in early 1988. Indications are that general cargo volumes through the Main Terminal will meet previous projections. This is a very positive trend as the terminal is the major activity centre operation in the port.

Our net income for 1987 of $129,000 is $317,000 below budgeted net income of $446,000. This variance is attributable to the increased depreciation expense with the completion of the Main Terminal resurfacing pavement project which was advanced in our capital program to meet our tenant's operational requirements. The 1987 financial results are an indication of the St. John's Port Corporation's commitment to provide efficient and modern facilities capable of meeting the transportation needs of the St. John's and eastern Newfoundland area into the distant future.

Fred Milley David J. Fox

The Corporation has attained (and intends to enhance) its primary objective of self-sufficiency and is very pleased with the co-operation received from the Port Manager and staff in this area.

Total 1987 port cargo tonnage was just 19,000 tonnes below that of 1986 at 866,000 tonnes. Commercial vessels entering the port were down by some 7 percent at 1,027 versus 1,103 in 1986. The gradual erosion of the offshore oil industry off the east coast has resulted in a further decrease in vessel activities with only 210 arrivals in 1987, versus 324 arrivals in the previous year. This is in comparison to 629 arrivals in 1985. This downturn in the industry has a major negative rippling effect on a large number of direct/indirect small private businesses impacting directly on the economic and social business environment for our region.

Capital investment in 1988 will be less than 1987, as the major portion of the Reconstruction program at the Main Terminal has now been completed. A refendering project at the terminal is scheduled for 1988 and the Corporation will also be investigating the possibility of further land acquisition to facilitate traffic expansion in this operational area.

In 1988, the port will concentrate on completing its planned redevelopment works at its Main Terminal complex, while at the same time maintaining and developing other areas to complement present daily activities that will further benefit the day-to-day port customer and port user in these areas.

Phase I of a special development project to establish a facility for inshore fishermen operating out of the Port of St. John's is scheduled to commence in 1988. This project is under the Department of Fisheries and Oceans and even though the St. John's Port Corporation will not be involved, the facility will be a major asset in the overall operation of the port.

The Chairman, Board of Directors, and Port Manager take this opportunity to express sincere gratitude and appreciation to all employees of the Corporation, port companies, agencies, and port users for their collective cooperation in helping to make 1987 as successful a year as possible for the St. John's Port Corporation.

Fred Milley
Chairman of the Board

David J. Fox
Port Manager and
Chief Executive Officer

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of the St. John's Port Corporation as at December 31, 1987, and the statements of income and surplus and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and Regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Chartered Accountants

St. John's, Newfoundland
February 22, 1988

Balance Sheet as at December 31, 1987

Assets	1987	1986
Current		
Cash	$ 83,548	$ 25,118
Investments (Note 3)	863,594	2,988,103
Accounts receivable	284,223	295,148
	1,231,365	3,308,369
Investments (Note 3)		949,653
Fixed (Note 4)	14,332,175	10,139,334
	$15,563,540	$14,397,356
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 495,085	$ 280,031
Grants in lieu of municipal taxes	35,464	100,690
Deferred revenues	255,783	171,418
Current portion of loans from Canada	124,836	56,833
	911,168	608,972
Accrued employee benefits	87,764	75,362
Loans from Canada (Note 5)	2,332,784	1,839,939
	3,331,716	2,524,273
Equity		
Contributed capital (Note 6)	10,131,636	9,749,318
Surplus	2,100,188	2,123,765
	12,231,824	11,873,083
	$15,563,540	$14,397,356

Contingencies (Note 7)

On behalf of the Board

Fred Milley
Chairman

David J. Fox
Port Manager and
Chief Executive Officer

Statement of Income and Surplus
for the year ended December 31, 1987

	1987	1986
Revenue from operations	$ 2,433,220	$ 2,388,782
Operating and administrative expenses	1,527,745	1,501,052
Depreciation	808,049	561,936
Grants in lieu of municipal taxes	52,224	68,598
	2,388,018	2,131,586
Income from operations	45,202	257,196
Investment income – net	83,695	251,051
Net income	128,897	508,247
Surplus, beginning of year	2,123,765	1,615,518
	2,252,662	2,123,765
Dividend to Canada	152,474	
Surplus, end of year	$ 2,100,188	$ 2,123,765

Statement of Changes in Financial Position
for the year ended December 31, 1987

	1987	1986
Cash provided from (used for)		
Operating activities		
Net income	$ 128,897	$ 508,247
Depreciation	808,049	561,936
Other non-cash items	7,938	(958)
	944,884	1,069,225
Changes in		
Accounts receivable	10,925	56,358
Accounts payable and accrued liabilities	215,054	(1,068,661)
Grants in lieu of municipal taxes	(65,226)	43,598
Deferred revenues	84,364	(54,766)
Current portion of loans from Canada	68,003	4,850
	1,258,004	50,604
Financing activities		
Loans from Canada	875,164	(56,834)
Contribution to Canada		(1,836,000)
Dividend to Canada	(152,474)	
	722,690	(1,892,834)
Investing activities		
Proceeds on disposition of investments	936,295	
Proceeds on disposal of fixed assets	57,900	5,100
Purchase of fixed assets	(5,040,968)	(766,351)
	(4,046,773)	(761,251)
Net cash used	(2,066,079)	(2,603,481)
Cash and short term investments, beginning of year	3,013,221	5,616,702
Cash and short term investments, end of year	$ 947,142	$ 3,013,221

Notes to Financial Statements
December 31, 1987

1. In accordance with the *Canada Ports Corporation Act*, a petition for the establishment of a local port corporation at the Port of St. John's was approved and the St. John's Port Corporation was established effective June 1, 1985.

In accordance with the *Canada Ports Corporation Act*, the assets, liabilities and equity were transferred at their carrying values in the accounts of the Canada Ports Corporation – Port of St. John's to the St. John's Port Corporation.

2. Significant accounting policies

a) Investments
The investments, which are direct and guaranteed securities of Canada, are shown at amortized cost. Premiums or discounts are amortized over the periods to maturity.

b) Fixed assets
Fixed assets are recorded at cost except for those transferred to the Corporation from Canada, which are recorded at appraised or fair market value established at the time of transfer. Grants towards capital projects received from Canada and from third parties are deducted from the cost of the related fixed assets.

Depreciation is calculated on the straight-line basis for the full year, commencing with the year the asset becomes operational, using rates indicated in Note 4.

c) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by Canada. Contributions to the plan are required from both the employees and the Corporation. The annual contributions for pensions are recognized in the accounts on a current basis.

d) Grants in lieu of municipal taxes
The expense for grants in lieu of municipal taxes is based on estimated municipal assessments adjusted in accordance with the Municipal Grants Act. Grants are paid after the amounts have been audited by the Municipal Grants Division of Public Works Canada. Any adjustments upon finalization are reflected in the accounts in the year of settlement.

e) Employee benefits
The Corporation accrues in its accounts, annually, the estimated liabilities for severance pay, annual leave and overtime compensatory leave, which are payable to its employees in subsequent years in accordance with its policy.

3. Investments

	1987		1986	
	Amortized Cost	**Face Amount**	Amortized Cost	Face Amount
Short term	**$ 863,594**	**$ 897,300**	$2,988,103	$3,042,700

	Amortized Cost	Market Value
Long term	$ 949,653	$1,069,337

4. Fixed assets

		1987			1986
	Depreciation Rate %	**Cost**	**Accumulated Depreciation**	**Net Book Value**	Net Book Value
Land		**$4,643,700**		**$4,643,700**	$3,370,578
Berthing structures	**2.5–10**	**8,046,748**	**$5,225,175**	**2,821,573**	2,811,656
Buildings	**2.5–10**	**1,611,606**	**1,190,200**	**421,406**	536,739
Utilities	**3.3–10**	**3,112,852**	**532,523**	**2,580,329**	2,580,055
Roads and surfaces	**2.5–10**	**4,143,950**	**557,444**	**3,586,506**	119,533
Machinery and equipment	**5–100**	**297,542**	**151,594**	**145,948**	95,168
Office furniture and equipment	**20**	**156,241**	**92,966**	**63,275**	44,187
Projects under construction		**69,438**		**69,438**	581,418
		$22,082,077	**$7,749,902**	**$14,332,175**	$10,139,334

5. Loans from Canada

	1987	1986
Loans, bearing interest at 9.33% and 10.15%, maturing in 1997 and 2000, payable in equal annual instalments of principal and interest of $360,982. The loans are unsecured.	**$2,457,620**	$1,514,453
Principal instalments payable within one year	**124,836**	56,833
	2,332,784	1,457,620
Accrued interest on loans		382,319
	$2,332,784	$1,839,939

During the year, accrued interest in the amount of $382,319 was forgiven by Canada. This amount has been credited to Contributed Capital.

Annual principal repayments in each of the next five years are as follows: 1988 – $124,836; 1989 – $136,913; 1990 – $150,159; 1991 – $164,689; 1992 – $180,627.

6. Contributed capital

Payments from excess cash made in 1986 to Canada and treated as Contribution to Canada in the amount of $1,836,000 have been reclassified to Contributed Capital.

7. Contingent liabilities

Claims aggregating approximately $5,000,000 arising from alleged damages suffered on the Corporation's property have been received by the Corporation. The Corporation is a third party defendant, and has denied any liability, and no material loss is anticipated.

In addition, claims aggregating approximately $150,000 have been received arising from quantity overruns on capital projects. The Corporation is disputing these claims and no material loss is anticipated.

Board of Directors

Fred Milley
Chairman
St. John's, Nfld.

Faith Good
Vice-Chairman
St. John's, Nfld.

Tom Osborne
Owner
Tom Osborne Real Estate
St. John's, Nfld.

Paul Reynolds
Motorist Trainer
Ultramar Canada Inc.
St. John's, Nfld.

Michael Walsh
General Chairman
Brotherhood of Railway and Airline Clerks
St. John's, Nfld.

Dermot Dobbin
President
BRADCO
St. John's, Nfld.

Art Puddister
Manager
Puddister Trading Co. Ltd.
St. John's, Nfld.

Officers of the Corporation

Fred Milley
Chairman

Faith Good
Vice-Chairman

David J. Fox
Port Manager and Chief Executive Officer

Allan W. Budden
Manager, Administration

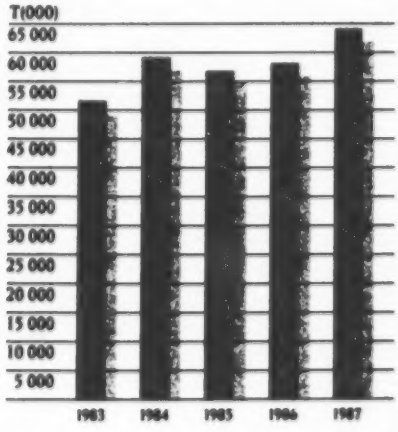
Captain Hugh Peden
Harbour Master

Keith F. Rose
Corporate Secretary

Performance Highlights

Total port tonnage sets all time record at 64 million tonnes.
Container clause abolished.
Record tonnages achieved in grain and forest products.
Two new state-of-the-art container cranes ordered.
26.1% increase in container traffic — a new port record.
Best performance ever in cruise passenger volumes.

Total Traffic



Vancouver Port Corporation

Joint message from the Chairman of the Board and the Port Manager and Chief Executive Officer

Record setting across the full spectrum of port operations characterized the 1987 performance of the Vancouver Port Corporation.

Cargo trends abroad, and pivotal decisions at home furthered the re-shaping of the Corporation's priorities begun in 1983 under its new Board of Directors.

This year, the Board, and the men and women of the Corporation, delivered the policies and programmes that produced bottom line records in several key areas. It is from this strong foundation that the port's future; it's ability to expand — to improve — and to compete is anchored.

Record Tonnages

For the first time in its 124-year history, the Port of Vancouver handled over 63 million tonnes of cargo; a performance paced by traditional bulk commodities that, in themselves, showed some individual surprises.

Records were also achieved in key growth sectors. Container TEU traffic was up by 26.1 percent and cruise traffic surpassed the passenger record achieved during Expo year.

The port's major coal terminal at Roberts Bank handled its largest-ever ship; Korea's "Hyundai Giant", and its record 240,000 tonne shipment.

Behind the Statistics

Western Canada's resource base delivered record exports in forest products and grain. Potash shipments were up by 32.3 percent over 1986. With bulk commodities accounting for more than 86 percent of the port's total throughput, the dynamics of these exports are constantly monitored by the Corporation.

The Clause: Landmark Decision

Clearly, the most profound single event of the 1987 port year was the federal government's action to abolish the Container Clause from the collective agreement governing the Vancouver waterfront. The Corporation identifies this factor as a linch pin to the port's future as a full-service facility, and responded with the awarding of contracts to purchase two new state-of-the-art cranes; one each for its container terminals; Vanterm and Centerm.

Captain Hector D. Perry Francis MacNaughton

Backing this immediate capital investment was stepped-up feasibility planning for improved intermodal facilities, and expansion of container terminal facilities on Burrard Inlet.

Marketing Canada's Biggest Port

The Vancouver Port Corporation's commitment to proactive marketing initiatives expanded during 1987; emphasizing targets on the Pacific Rim.

During 1987, the Corporation undertook a container marketing mission to Japan and Korea. Cargo objective was the estimated 50,000 TEUs of CKD containers that will come on stream from overseas automakers over the next four years. The Corporation's marketing strategy stressed a "Team Approach", and included both national railways, and the operators of VPC's two container terminals.

Showing a record throughput of 280,777 TEUs, the 1987 container performance reflects the first full year of operation for the two competing terminals operating under long-term service contracts with VPC.

The port's cruise business was another strong finisher and presents good growth prospects into the new season.

Reinforcing its competitive commitment, the Corporation held the line on port charges for the fourth consecutive year; not raising tariffs in any cargo sector.

Communicating: The Essential Outreach

The Corporation strengthened its communications initiatives to its several "stakeholders" in the port community. The creation of PEDAC (Port Economic Development Advisory Committee) now invites input from municipalities, labour, employer, transport and general business sectors. A record turn-out of nearly 10,000 people marked Port Day 87, the Schools Programme expanded, and VPC representatives were active on local business committees and as guest speakers.

Looking to the future, the Vancouver Port Corporation notes most seriously the imperative for a waterfront labour climate characterized by contemporary skills, pride, productivity, and stability. We recognize the opportunity — indeed the obligation of the Corporation to offer initiatives and assistance to our port community to ensure this climate gains credence, and flourishes into the next decades.

Captain Hector D. Perry
Chairman of the Board

Francis MacNaughton
Port Manager and
Chief Executive Officer

Auditors' Report

To the Honourable John Crosbie, P.C., M.P.
Minister of Transport

We have examined the balance sheet of Vancouver Port Corporation as at December 31, 1987, and the statements of income and retained earnings and changes in cash resources for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its cash resources for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our examination of the financial statements have, in all significant respects, been in accordance with Part XII of the *Financial Administration Act* and regulations, the *Canada Ports Corporation Act* and the by-laws of the Corporation.

Chartered Accountants

Vancouver, British Columbia
February 17, 1988

Balance Sheet as at December 31, 1987

(in thousands of dollars)

Assets	1987	1986
Current Assets		
Cash	$ 527	$ 306
Investments (note 3)	54,518	39,107
Accounts receivable	6,870	5,170
Materials and supplies	306	236
	62,221	44,819
Long-term receivables (note 4)	7,519	7,902
Property and equipment (note 5)	181,751	184,187
	$251,491	$236,908
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,367	$ 3,599
Grants in lieu of municipal taxes	5,979	5,187
Deferred revenues	2,550	2,781
	10,896	11,567
Accrued employee benefits	1,169	1,106
Loans from Canada (note 6)	3,949	108,019
	16,014	120,692
Equity of Canada		
Contributed capital (note 9)	88,273	7,733
Contribution to Canada (note 9)	—	(23,331)
Retained earnings	147,204	131,814
	235,477	116,216
	$251,491	$236,908

Commitments (note 8)

On behalf of the Board

Hector D. Perry
Chairman

Rodney A. Snow
Director

Statement of Income and Retained Earnings

(in thousands of dollars)

for the year ended December 31, 1987	1987	1986
Operating revenue, gross	$ 46,657	$ 78,541
Less service contractors	—	34,541
Operating revenue, net (note 7)	46,657	44,000
Operating and administrative expenses	17,715	18,147
Grants in lieu of municipal taxes	5,133	5,097
Depreciation	6,352	6,225
	29,200	29,469
Income from operations	17,457	14,531
Investment income	4,074	5,192
Interest expense on loans from Canada	(325)	(338)
	3,749	4,854
Income before unusual item	21,206	19,385
Adjustment of grants in lieu of municipal taxes	—	1,200
Net Income	21,206	20,585
Retained earnings at beginning of year	131,814	111,229
	153,020	131,814
Less cash payment to Canada	5,816	—
Retained earnings at end of year	$147,204	$131,814

Statement of Changes in Cash Resources

(in thousands of dollars

for the year ended December 31, 1987	1987	1986
Cash provided by (used for):		
Operating activities		
Net income	$21,206	$20,585
Items not involving cash		
Depreciation	6,352	6,225
Other	111	(1,555)
Changes in non-cash components of working capital	(2,441)	2,089
	25,228	27,344
Financing activities		
Capital grants	—	499
Loans from Canada currently payable	(199)	(185)
Contribution to Canada	—	(23,331)
Cash payment to Canada	(5,816)	—
	(6,015)	(23,017)
Investment activities		
Additions to property and equipment	(4,007)	(13,375)
Sale of Canada Bonds	—	10,897
Other	426	423
	(3,581)	(2,055)
Increase in cash resources	15,632	2,272
Cash resources at beginning of year	39,413	37,141
Cash resources at end of year	$55,045	$39,413

Cash resources are defined to include cash and investments.

Notes to Financial Statements
year ended December 31, 1987

1. General
The Vancouver Port Corporation (the Corporation) was established effective July 1, 1983 as a local port corporation pursuant to the *Canada Ports Corporation Act* and is a parent crown corporation named in Schedule C, Part II of the *Financial Administration Act*. The Corporation is exempt from income taxes.

The objectives of the Corporation are to manage and administer the harbour of Vancouver as an effective instrument in support of the national ports policy as set out in the *Canada Ports Corporation Act*.

2. Summary of Significant Accounting Policies
These financial statements have been prepared by management in accordance with generally accepted accounting principles considered to be appropriate in the circumstances and consistently applied. A summary of the significant accounting policies of the Corporation is as follows:

a) Property and equipment
Property and equipment are recorded at cost. Depreciation is calculated on the straight-line basis, commencing with the year the asset becomes operational, at rates based on the estimated useful lives of the assets as follows:

Dredging	15 to 40 years
Berthing structures, buildings, roads and surfaces	10 to 40 years
Utilities	10 to 33 years
Machinery and equipment	1 to 20 years
Office furniture and equipment	5 years

b) Pension costs
All permanent employees of the Corporation are covered by the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are required from both the employees and the Corporation. Although the Plan is a defined benefit plan, the contributions represent the total liability of the Corporation and are recognized in the accounts on a current basis.

c) Insurance
The Corporation assumes substantially all risks against fire and property damage, as well as for workers' compensation claims. Any costs arising from these risks are recorded in the accounts in the period incurred.

d) Grants in lieu of municipal taxes
Grants in lieu of municipal taxes are based on estimated municipal assessments adjusted in accordance with the *Municipal Grants Act*. After the amounts have been audited by the Municipal Grants Division of Public Works Canada, any adjustments upon finalization are reflected in the accounts in the period of settlement.

e) Employee benefits
The Corporation accrues in its accounts the estimated liabilities for severance pay and annual leave. These benefits are provided under collective agreements and corporate policy.

3. Investments
Current investments are in Government of Canada treasury bills and at December 31, 1987 and 1986 the market value of the treasury bills approximated carrying value.

4. Long-term Receivables

(in thousands of dollars)

	1987	1986
Non-interest bearing agreement with B.C. Rail, due as and when rail trackage is constructed on Roberts Bank causeway or April 1, 1994, whichever is earlier	$3,947	$3,947
Long-term agreement for sale of No. 1 Elevator, bearing interest at 6⅛% per annum, payable in blended annual instalments of $462,916 maturing December 31, 1996	3,065	3,309
Less current portion	(260)	(244)
	2,805	3,065
Long-term agreement for sale of No. 3 Elevator, bearing interest at 5¼% per annum, payable in annual instalments of $117,720 plus interest maturing August 1, 1994	824	942
Less current portion	(118)	(118)
	706	824
Other	61	66
	$7,519	$7,902

5. Property and Equipment

(in thousands of dollars)

	1987			1986
	Cost	Accumulated depreciation	Net	Net
Land	$ 76,403	$ —	$ 76,403	$ 76,291
Dredging	366	178	188	200
Berthing structures	51,416	23,107	28,309	29,314
Buildings	43,801	9,909	33,892	34,893
Utilities	13,334	5,298	8,036	7,727
Roads and surfaces	30,619	15,435	15,184	15,379
Machinery and equipment	26,136	9,048	17,088	17,967
Office furniture and equipment	2,311	1,536	775	157
Projects under construction	1,876	—	1,876	2,259
	$246,262	$64,511	$181,751	$184,187

6. Loans from Canada

(in thousands of dollars)

	1987	1986
Interest-bearing loan at 7.5% repayable in blended annual instalments maturing December 31, 2000	$4,148	$ 4,333
Less current portion	(199)	(185)
	3,949	4,148
Non-interest-bearing loan with an indefinite due date	–	76,494
Accrued interest not due and payable	–	27,377
	$3,949	$108,019

During the year, the non-interest-bearing loan and the related accrued interest in the amount of $103,871,000 were forgiven by Canada. This amount has been credited to contributed capital (see note 9).

Principal repayment requirements over the next five years amount to $199,000 in 1988, $214,000 in 1989, $230,000 in 1990, $248,000 in 1991 and $266,000 in 1992.

7. Operating Revenue, Net

The Corporation entered into new Terminal Services contracts during 1986 for terminals operated by the Corporation. Under the old contracts all revenues generated on these terminals were recorded by the Corporation as operating revenue with payments for the services of the service contractors recorded as operating expense. Under the new contracts revenues now accruing directly to the service contractors are not shown as revenue or expense in the Corporation's financial statements.

8. Commitments

At December 31, 1987 the estimated cost of completing all approved capital projects was $40 million of which the Corporation had contractual obligations at that date for $14.1 million.

The Corporation has long-term lease obligations of varying durations to 1991 for office accommodation aggregating $2,396,000 with annual payments in each of the four years of: 1988, $741,000; 1989, $662,000; 1990, $662,000; and 1991, $331,000.

9. Contributed Capital

Payments made in 1986 to Canada and treated as contribution to Canada in the amount of $23,331,000 have been reclassified to contributed capital, the balance of which is now made up as follows:

	Contributed Capital	Contribution to Canada
	(in thousands of dollars)	
Balance at beginning of year	$ 7,733	$(23,331)
Forgiveness of non-interest-bearing loans and related accrued interest (note 6)	103,871	–
Reclassification of contribution to Canada	(23,331)	23,331
Balance at end of year	$88,273	$ –

10. Related Party Transactions

Through common ownership, the Corporation is related to all Government of Canada created departments, agencies and Crown corporations.

In addition to the loans from Canada disclosed in note 6, the Corporation paid $1,594,000 (1986, $1,599,000) to Canada Ports Corporation as its share of that corporation's operating expenses and paid $5,815,500 to Canada as a cash payment in the current year. The Corporation has been requested to consider making a cash payment of 30% of 1987 net income, payable to Canada by March 31, 1988.

Board of Directors

Captain Hector D. Perry
Chairman
Ganges, B.C.

Jane E. Frost **/°/°°
Vice-Chairman
Vancouver, B.C.

Norman G. Cunningham */°
Vancouver, B.C.

Laurie G. Maranda */**/°°
Vice President
Choukalos, Woodburn, McKenzie, Maranda Ltd., Consulting Engineers
Vancouver, B.C.

Richard I. Nelson **/°
Vancouver, B.C.

Gary C. H. Short
Vancouver, B.C.

Rodney A. Snow */°°
Barrister and Solicitor
Davis & Co.
Vancouver, B.C.

* Member, Audit Committee
** Member, Planning and Budgeting Committee
° Member, Executive Committee
°° Member, Economic Development & Community Relations Committee

Officers of the Corporation

Captain Hector D. Perry
Chairman

Francis J. MacNaughton
Port Manager and Chief Executive Officer

Captain Norman C. Stark
Assistant Port Manager

Philip L. Clark
General Counsel and Corporate Secretary

Donald G. Buggie
Director, Finance

Corporate Directory

Board of Directors

The Honourable A.R. Huntington
Chairman
Ottawa, Ont.

William Marsh
Vice-Chairman
River Ryan
Cape Breton, N.S.

Jean Michel Tessier
President and Chief Executive Officer
Canada Ports Corporation
Ottawa, Ont.

Dr. John Balkwill
Kanata, Ont.

Raymond V. Beck
Halifax, N.S.

Ronald Corey
Chairman, Montréal Port Corporation
President, Montréal Canadian Hockey Club Inc.
President, Montréal Forum Inc.
Montréal, Que.

Robert Dowling
President, Cavell Drugs Ltd.
Jasper, Alta.

Brian Keple
President
Regina Cartage & Storage
Regina, Sask.

Richard K. Lester
Manager, Vancouver Office
Parrish & Heimbecker Limited
Vancouver, B.C.

A.R. "Sandy" MacLean
Principal
Dalhousie Regional High School
Dalhousie, N.B.

C. Peter MacLean
Vice President
J.W. MacDonald & Company Ltd.
New Glasgow, N.S.

The Honourable Jean Marchand
Vice-Chairman
Port of Québec Corporation
Québec, Que.

Arnold E. Masters
President
Maritime Employers Association
Montréal, Que.

Captain H.D. Perry
Chairman
Vancouver Port Corporation
Ganges, B.C.

James B. Powers
President and General Manager
Labrador Construction Company Limited
St. John's, Nfld.

Wallace S. Turnbull, Q.C.
Partner
Clark, Drummie & Company
Saint John, N.B.

Robert H. Vandewater
Vice President and Sr. Account Executive
Wood Gundy Inc.
Winnipeg, Man.

Officers of the Corporation

The Honourable A.R. Huntington
Chairman

William Marsh
Vice-Chairman

Jean Michel Tessier
President and Chief Executive Officer

Hassan J. Ansary
Vice President, Corporate Services

Camille A. Guérin
Vice President, Finance and Administration

T.A. Lauzon
Vice President, Divisional Ports

Ted Clunyk
Director General, Police & Security

Thomas E. Gallagher
Director, Senior Counsel
Common Law

Pierre Woods
Director, Senior Counsel
Civil Law

Roza Aronovitch
Corporate Secretary

Executive Committee

Chairman: The Honourable A.R. Huntington
Vice-Chairman: William Marsh
Members: Dr. John Balkwill
Ronald Corey
Brian Keple
Jean Michel Tessier
Robert H. Vandewater

Audit Committee

Chairman: Robert H. Vandewater
Members: Ronald Corey
A.R. "Sandy" MacLean
C. Peter MacLean
James B. Powers

Corporate Planning and Budget Committee

Chairman: James B. Powers
Members: Robert Dowling
Richard K. Lester
Arnold E. Masters
Wallace S. Turnbull

Police Committee

Chairman: Brian Keple
Members: Raymond V. Beck
D. Cassidy (Member at large)
The Honourable K.A. Flanigan (Member at large)
The Honourable A.R. Huntington
The Honourable Jean Marchand
Jean Michel Tessier

Mailing Addresses

Local Port Corporations

Halifax Port Corporation
Ocean Terminals
P.O. Box 336
Halifax, N.S.
B3J 2P6
Tel.: (902) 426-3643

Montréal Port Corporation
Port of Montréal Building
Cité du Havre, Wing No. 1
Montréal, Que.
H3C 3R5
Tel.: (514) 283-7042

Prince Rupert Port Corporation
110-3rd Avenue W.
Prince Rupert, B.C.
V8J 1K8
Tel.: (604) 627-7545

Port of Québec Corporation
150 Dalhousie Street
P.O. Box 2268
Québec, Que.
G1K 7P7
Tel.: (418) 648-3558

Saint John Port Corporation
133 Prince William Street
P.O. Box 6429, Stn. A
Saint John, N.B.
E2L 4R8
Tel.: (506) 648-4869

St. John's Port Corporation
3 Water Street
P.O. Box 6178
St. John's, Nfld.
A1C 5X8
Tel.: (709) 772-4582

Vancouver Port Corporation
1900-200 Granville Square
Vancouver, B.C.
V6C 2P9
Tel.: (604) 666-8978

Canada Ports Corporation

Port of Belledune
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99 Metcalfe Street
Ottawa, Ont.
K1A 0N6
Tel.: (613) 957-6787

Ports of Chicoutimi/Baie des Ha! Ha!
Lafontaine Street
P.O. Box 760
Chicoutimi, Que.
G7H 5E1
Tel.: (418) 543-0263

Port of Churchill
P.O. Box 217
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R0B 0E0
Tel.: (204) 675-8823

Port Colborne
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Port of Prescott
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Tel.: (613) 925-4228

Port of Sept-Îles
421 Arnaud Street
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Port of Trois-Rivières
1545 du Fleuve Street
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